DOCUMENT RESUME

ED 067 770 EA 004 625

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|---|---|
| AUTHOR | Fitzgibbon, James; And Others |
| TITLE | Urban School Construction: A Case Study of Alternative Financing Methods for St. Louis, Missouri. A Report. |
| INSTITUTION | Washington Univ., St. Louis, Mo. |
| SPONS AGENCY | Educational Facilities Labs., Inc., New York, N.Y. |
| PUB DATE | 71 |
| NOTE | 76p. |
| AVAILABLE FROM | Educational Facilities Laboratories, Inc., 477 Madison Avenue, New York, New York 10022 ($1.00) |
| EDRS PRICE | MF-$0.65 HC-$3.29 |
| DESCRIPTORS | Bond Issues; Case Studies; City Demography; Community Attitudes; *Educational Finance; Federal Aid; *Financial Policy; Land Acquisition; Power Structure; Purchasing; *School Construction; School Taxes; State Aid; *State Legislation; State School District Relationship; *Urban Schools |
| IDENTIFIERS | *Construction Finance; Missouri |

ABSTRACT

The authors, after discussing the St. Louis school system and its financial history, survey both traditional and innovative construction finance alternatives that have been used across the country. These alternatives, which fall into two categories, include: (1) conventional financing through tax incomes including State and Federal aid, and (2) leasing of air rights and/or school facilities and various shared-occupancy solutions where monies are generated in connection with the actual construction of school buildings. The authors use a computer program to summarize the potential transactions between two groups: (1) a school board, the city, the State, and the Federal Government; and (2) public corporations, private developers, and money sources. Broad plans selected from computer results include: (1) creating special school construction districts; (2) deeding school property to a public corporation and then leasing it back after it is improved; (3) acquiring urban renewal land, part of which to be used for school functions and part of which to be leased; and (4) lease-purchase. Relevant procedural and legal information is included in the discussion of each plan. The authors conclude that lease-purchasing plans, while currently subject to many legal and statutory restrictions, suggest the most promising solutions to St. Louis' educational facilities needs. (Author/JF)

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ED 067770

A Report for Educational Facilities Laboratories

# Urban School Construction:

## A Case Study of Alternative Financing Methods for St. Louis, Missouri

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The Educational Facilities Laboratory, Incorporated, is a not-for-profit corporation established in 1958 by the Ford Foundation to help American students and colleges with their physical problems by encouraging research and dissemination of knowledge regarding educational facilities. The authors of this report are indebted to scores of individuals who were willing to give their time in interviews and correspondence for this study. Some who were particularly helpful are listed throughout this report and on page
To the many others as well as to the Educational Facilities Laboratory which funded this report and to the Board of Education of the City of St. Louis without whose cooperation this study would have been impossible - - the deepest gratitude is due. The authors of this report are solely responsible for its contents.

EFL responded to a request by the Washington University School of Architecture in St. Louis to aid in the search for alternative methods of financing school building programs for urban schools. This request was given support and encouragement by members of the St. Louis Board of Education, William Kottmeyer, former Superintendent of Schools, Commissioner C. J. Ratz, and School Board architect Edouard Mutrux.

During the course of this study, EFL called two small conferences of people concerned with school financing problems on the city, state and national levels, to discuss the nationwide, urban school-financing crisis. Some sense of the work and ideas developed at these conferences is included in this study.

All major American cities suffer the ills of schools in trouble, with inflation, integration difficulties, a middle class exodus, taxpayer revolts, imbalance of school population, and many other problems.

A new factor has emerged recently - - a decline in the level of the total urban population in many large American cities.

St. Louis is an average city in the severity of its problems, with some advantages compared to other municipalities and some roadblocks not shared by others. The present study has been based upon an examination of the St. Louis school system, its financial history, and the laws that direct and bind school financing.

It is immediately apparent to anyone who studies urban school financing that school boards are rigorously regulated by state statutes and by the continuing custom of conservative interpretations of those laws by state Supreme Courts and Attorney Generals.

As we note later, in Missouri a school board has not been considered

a continuous body in these decisions and opinions. Also, it is restricted to those powers explicitly delegated to it by statute and cannot venture easily into areas in which neither permission nor presumption has been defined.

This study has been made in an effort to understand these statutory limitations and to describe a variety of alternatives to issuance of general obligation bonds for school construction.

These other school financing innovations are being tried in states across the nation. We have examined a few of these methods in the context of Missouri law and school board procedure.

Unfortunately, these financing experiments being attempted in other states are, with minor exceptions, outside the scope of the existing Missouri statutes. We report them without bias, however, in the hope that this information will be of use to anyone interested in school financing, the possibilities of enabling legislation, and the efforts being made elsewhere to come to grips with the perplexing problem.

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# 1

# The City and the People

On May 28, 1971, the Board of Education of the City of St. Louis, announced that it was purchasing an abandoned high school from the Catholic Archdiocese. Funds for the purchase, the school board said, would be monies intended to supplement bond issue funds for the construction of new schools.

The small news item ironically encapsuled the problems faced by the district: it has the money to purchase a school nearly half-a-century old because it cannot get voter approval for construction of new schools.

Another old school is something St. Louis does not need. Thirty-four buildings now in use were constructed between 1868 and 1899; 44 were built between 1900 and 1919. An additional 27 date back to between 1920 and 1939.

Antiquated structures alone are not the whole problem: 37 elementary schools have a play area of less than 50 square feet for each pupil - - half the recommended recreational area for each child Forty-eight elementary schools have neither gymnasium, lunch room, nor auditorium.

Since the end of World War II, only three school bond issues have passed, out of 21 that have been put up for a vote. Overcrowding in 19 schools has necessitated bussing more than 3,000 elementary students to less crowded facilities.

This has resulted in an annual expense of more than $400,000 to a district already in serious difficulty meeting its normal operating expenses.

A 1970 Washington University School of Architecture study based on the question "How are Schools built in St. Louis?" quickly discovered that few or no schools are built in St. Louis.

The last new facility was constructed in 1965, with money from the last bond issue passed by the voters, in 1962. Prospects, almost a decade later, are bleak that St. Louisans will ever approve a bond issue for construction.

Concern arising from this pessimistic projection prompted the School of Architecture to request assistance from the Educational Facilities Laboratory in examining the causes and history of this present situation. The study objectives were to determine whether any alternative methods of financing urban schools were being employed in the United States and whether any of these procedures might be useful in St. Louis for either new school construction, for additions to

and remodeling of existing buildings, or for portable or temporary buildings for school use.

Only one proposal appears to provide a vehicle, in addition to the traditional general obligation bond, that could be utilized without requiring enabling legislation.

Even that one - construction of a school by a private developed from whom the school board buys the improvements over a period of time by incremental purchase, could encounter strong opposition from conservative elements in a city that has traditionally been less than open-handed to its school system.

From the beginning of the century until the 1950s, two basic themes describe the financial history of St. Louis schools: its citizens demanded no more than a mediocre level of education for their children and the school boards did not take the initiative in striving for long-range development. Only when a crisis arose or the need for additional operating funds became crucial did the board approach the voters for additional revenue.

The situation is paralleled by the city financing as a whole.[1] City leadership has preferred a balanced budget and relatively low taxes to the taking of a far-sighted view. The decades of deferral of capital improvements and maintenance have taken their toll, and the city finds itself caught in decay much of which is a direct result of the short-sighted frugality of an earlier time.

The citizens responded to all the school board's appeals until 1947, passing each of the nine modest tax increases and bond issue proposals put before the voters between 1916 and 1946.

These funds, however, were raised to support a predominantly white (segregated) school system. The Board's allocations to the black schools maintained a poor level of both education and facilities.

Integration of the schools in the 1950s forced the Board to equalize these allocations at the same time that population movements out of the City were rapidly increasing the proportion of blacks in the enrollment.

The strong white support on which the Board had depended decreased steadily over the two decades after the War, as whites moved to the suburbs and the black influx from rural southern

1 Tobin, Gary A., The St. Louis School Crisis: Population Shifts and Voting Patterns. June 1970 (Washington University Department of History).

areas continued. Today, the school population is almost 70 per cent black.

From 1947 to 1969, 21 tax increased or bond issue proposals were defeated; 18 passed. (School tax increases require only a simple majority; a two-thirds majority is the statutory requirement for passage of a bond issue).

Where in the early 1950s passage was the rule and failure the exception, the reverse is true today. Even a 1969 bond issue for new classroom construction that would have involved *no tax increase whatsoever* went down to defeat.

Before the turning-point year, 1947, St. Louis presented the picture of a city that could well afford to spend more money on education, but chose not to. The tax base was there, but the board did not ask the citizens to vote its use. In 1939, for example, St. Louis ranked 4th of 10 cities of comparable size in its ability to support a school system; it ranked 6th out of 10 in its expenditures in relation to the value of taxable property.

Between 1947 and 1969, however, the assessed property value increased barely 1 per cent, while budget costs multiplied four times and enrollment increased by 20,000 pupils.

Large urban renewal projects and public housing developments in St. Louis in the 1950s were called "a series of catastrophies for the public schools", in a 1966 report made by J. Ernest Kuehner,[1] assistant to the superintendent. Residential patterns quickly shifted and taxable properties were lost overnight as revenue sources. The board had to build schools for the children in the projects and also more schools in areas where those displaced from the ghettos chose to settle.

"If funds are available for the construction of a housing project within an area, certainly funds could be made available for construction of a school - to serve this project", Kuehner wrote.[2]

It did not work out that way. St. Louis receives about $5,000,000 in annual Federal aid to education, and about 30 per cent of its $79,000,000 budget in State aid. No Federal funds can be used for school construction, however, although some is available for lunchrooms. No State help is available for construction, except very limited aid for the building of vocational schools.

1 Kuehner, J. Ernest, Internal Report to the Superintendent of Instruction, St. Louis City School District, 1966.

2 Kuehner, J. Ernest

The average citizen sees "children by the thousands occupying new school buildings paid for with the income from his taxed property while his own children attend schools 50, 60, 70 and 90 years old; schools for which he once voted funds for replacement,funds which were diverted to build schools to serve low-rent housing projects", Kuehner wrote, accurately describing the bitterness felt by many white St. Louis property owners.[1]

Another factor in the lessened public support for school taxes has been the large Catholic population in South St. Louis and the increasing proportion of elderly persons in the City.

As more and more white Protestant families left the City, the lack of support in traditionally Catholic wards increased in importance. Inflation has made its impact on the Catholic school system also, with ever larger financial demands being made on parishioners.

In the Spring of 1972 the Catholic school system closed nine city schools. The Archdiocese has spent about $1,000,000 annually in subsidies for its inner-city schools.

Elderly persons, on fixed incomes that do not enable them to join in the flight to the suburbs, have consistently voted against property taxes that would increase the already heavy burdens they bear.

Some observers point to St. Louis' population decline as justification for refusal to construct more schools. The number of residents has fallen from 850,000 in the 1950s to the 1970 census figure of 622,000.

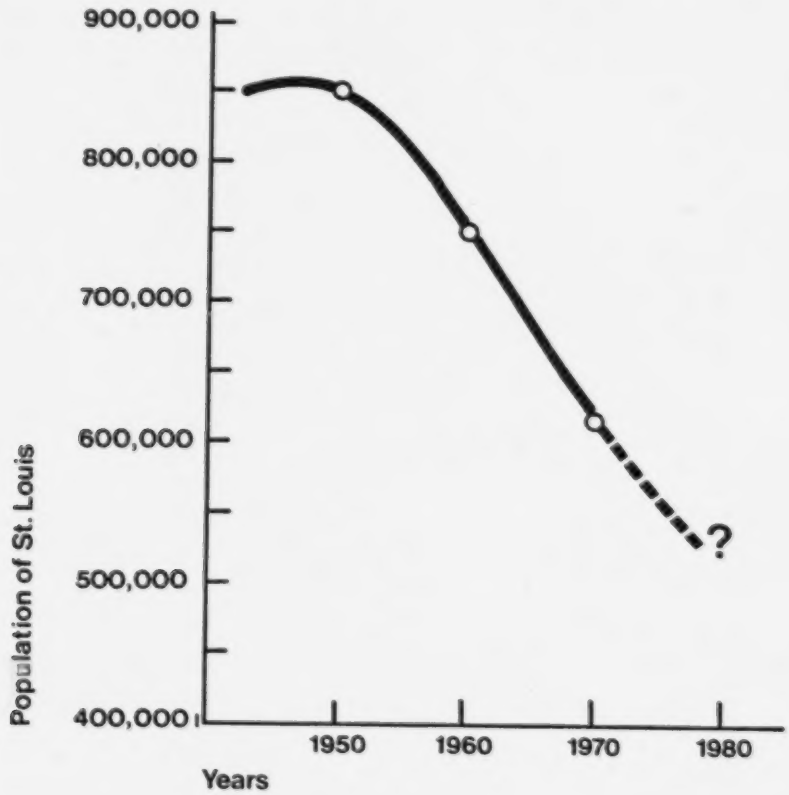
It is true that overcrowding is not present in some schools. One of the best teacher-pupil ratios is to be found in elementary schools near the giant Pruitt-Igoe public housing development. Ironically, these optimum in-school conditions exist because living conditions in the high-rise apartment buildings are so intolerable that not even persons at the bottom of the economic spectrum will live there. At present, 17 of the 43 eleven-story buildings stand vacant.

Pruitt-Igoe and the large number of vacant and vandalized buildings in the core city today give mute testimony to another factor in the population loss: reduction in the flow of poor blacks from the south that once provided a steady stream of tenants for slum housing.

Demographic estimates for the City in the next decade are difficult to come by and at variance: some forecast a 1970 population of 500,00 and others believe that it will be closer to 350,000.

1 Kuehner, J. Ernest

Population of St. Louis




This new factor - population decline in most of the older American cities - is causing serious difficulties in population forecasting with attendant difficulties for the planning boards, commissions, school boards and others dependent on accurate population estimates to guide their decisions. St. Louis' decline cannot be reversed by annexation; the City withdrew from surrounding St. Louis County almost a century ago and cannot increase its territory.

It is probable that many American cities have been undergoing a hidden process of abandonment for many years. The desertion of certain areas, usually in the core city, has traditionally been masked by the influx of foreign immigrants who have occupied the declining housing sections.

The farm population today, however is at a record low and can no longer be expected to produce any large number of people to become city dwellers. Suddenly in the cities, St. Louis among them,

blocks of vacant buildings give vivid overt evidence of the abandonment taking place in the former "crowded ghettos".

Today, the movement out of the St. Louis ghettos is definitely horizontally - much of it within the City - and some observers think that the rate of continued white out-migration to St. Louis County will depend upon the extent and character of this horizontal movement within the City. The variation in current informed opinion, regarding the point at which the declining St. Louis population curve will "bottom out", seems to depend on estimates of the stability of the white middle-class and ethnic neighborhoods in southern and northern St. Louis to adjust to and absorb this horizontal movement.

A report (see Appendix A) made for this study by the Center for Urban Programs at St. Louis University predicts that St. Louis may attain zero population growth by 1990 or sooner. Zero population growth in this instance means that birth and death rates are equal.

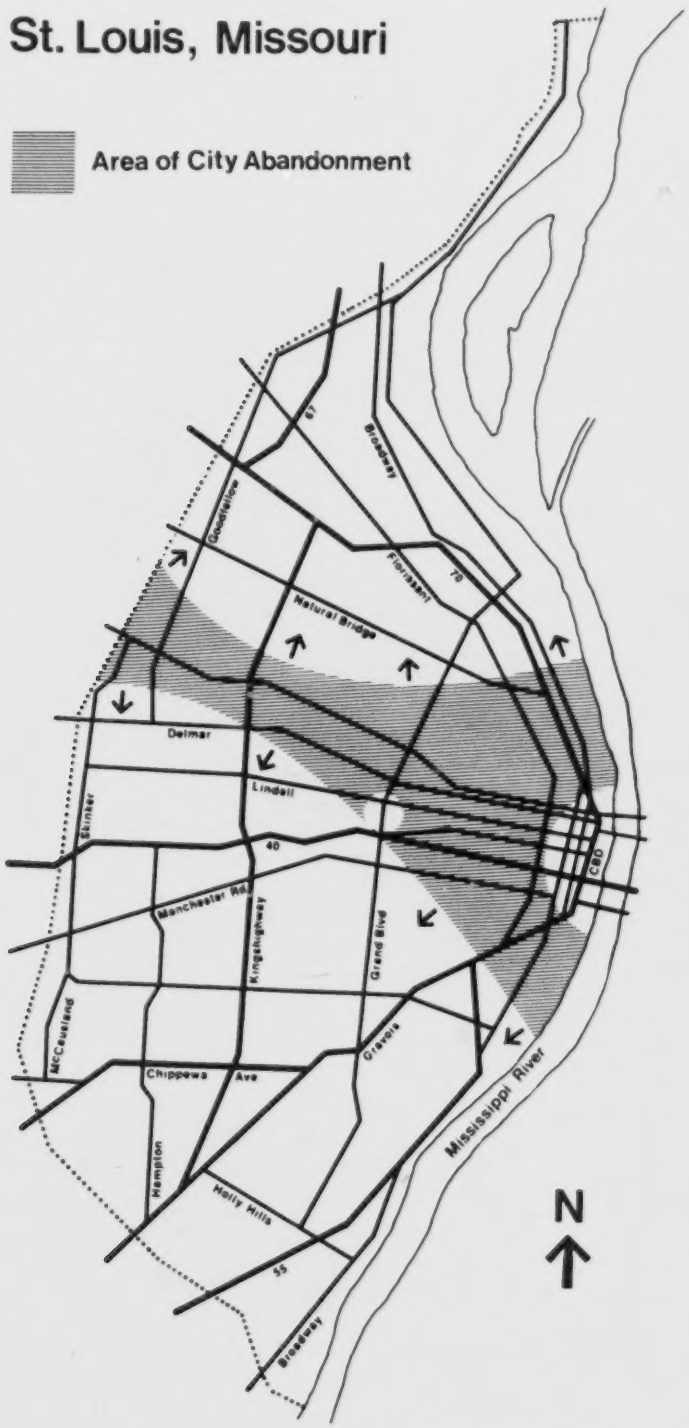
The birth rate for 1960 was 25.8 and the death rate was 13.9; the 1970 birth rate was 18.95 and the death rate 15.07. Projecting this ratio and noting that the majority of out-migrants from the City have been young families that take with them the City's potential for population growth, the study said that it appears inevitable that the population will continue to decrease.

The St. Louis University researchers noted, however, that the total assessed valuation of real and personal property, merchants' equipment and inventory in 1957 was almost exactly the same as in 1970 - about $1,717,000.

They also noted that about $55,000,000 in real property is now tax-free because of tax abatements given to stimulate development on land cleared by urban renewal. This property will appear on the tax rolls, at full assessed value, between 1980 and 1990.

The study concludes, for these reasons, that the total property value is not expected to drop below $1,700,000,000 despite a population decline. Loss of population, in other words, is not expected to affect the tax base on which the schools are funded.

It should be briefly noted that the success of federally-funded programs for renovation and low-interest loans for construction of new housing will also be a factor in the school population. Ground was recently broken for two $18,000 homes being built by two black families with a federal subsidy in an area where no new houes have been erected in 60 years. Additional new housing will also be supplied via Operation Breakthrough Programs.




Horizontal Movements Within the City of St. Louis

A few financial facts on the St. Louis school boards' current fiscal state: the board's indebtedness is $30,000,000, far below its statutory limit of $170,000,000 or 10 per cent of the total assessed property valuation.

Unlike many new suburban communities with a burgeoning population and little commercial or industrial building, St. Louis' problem is not getting around the statutory debt limit, but that of voters who will not approve increasing the present debt.

The current debt retirement levy is 17 cents per $100 of assessed valuation; the operating levy is $2.69 per $100.

A study made in the 1960s showed that of 2,100 elementary school classes, 900 have 36 or more pupils.[1] To reduce the teacher-pupil ratio on the elementary school level to 20 to 1 would require construction of sixty-two 12-room schools and six 24-room schools, plus additional staff and administrative costs.

The cost of this, spread over a 5-year period, would be more than $96,000,000.

In sharp constrast with this estimated financial need is the figure of $56,000,000 - the total amount in bond issues passed by the voters in all the years since World War II.

Since 1965 no over-all forecast has been prepared by the school board that would sum up the total of construction needs for St. Louis, making allowances for future deterioration, refurbishment needs on a large scale, new construction demanded by future population shifts and especially, new cost figures based on the current costs of maintenance and construction caused by inflation.

It is probable now that any of the construction items mentioned in the 1960s would have to be almost doubled in cost considering 1971's inflationary prices.

The School Board dropped its sights sharply in the 1960s, first to a request for $32,000,000 and then, after several voter defeats, asking for an emergency sum of $4,000,000. Even this patently insufficient request was rejected.

In view of this refusal by the taxpayers to indebt themselves for school construction via the customary general obligation bond route, and in view of the fact that construction of schools in newly populated areas and replacement of obsolete buildings on existing school

1 St. Louis Board of Education, A Tale of Two Cities St. Louis Board of Education, 1968.

sites *must* take place in St. Louis, this present study was initiated.

Deep concern must be expressed about the moral implications of searching for alternatives to the general obligation bond for funding of school construction. Is this an attempt to outflank or circumvent the will of the people?

A certain assurance can be found for the propriety of this study in the fact that all the defeated bond proposals have received from 52 per cent to 64 per cent voter approval. This was not enough to provide the 66-2/3 majority required for passage, but certainly presents an indication that a healthy majority of St. Louisans were willing to tax themselves for better schools.

Additionally, legislative proposals to lower the 2/3 majority requirement to a simple majority or even to 60 per cent have been defeated in the Missouri legislature, giving added impetus to a search for financial alternatives.

It should also be noted that the declining population in St. Louis makes the use of general obligation bonds, which are an indebtedness passed along to future residents, a questionable financial tool.

St. Louis is not alone in struggling with these adverse financial circumstances. A search for ways in which other fiscally-beleagured cities have coped with these problems has produced information about several ancillary methods for financing school construction now in use elsewhere in the Nation.

Many of these depend on school board powers that exceed those delegated to boards in Missouri. Others are based on legislation enacted in some of the states giving powers and opportunities to boards, commissions, and state and city corporations that have been applied on behalf of school financing demands.

# 2

# The Mechanisms

The school construction financing problem found in St. Louis is common to many large urban school systems across the country. Simply stated, it is that the conventional or historical methods of raising funds for school building have failed the task of providing either the quantity or quality of educational space required.

This nation-wide condition has generated a large number of experimental and innovative approaches for financing new space. It will be useful to examine both the traditional methods and the new procedures in terms of their intended goals and the advantages and limitations of each as vehicles for school financing.

The methods that will be described fall into two categories:

a) Methods of financing in which school building monies flow into the system from outside sources, taypayers, grants, state and federal sources and sales of bonds.

b) Methods of financing in which school building monies flow from the action of constructing the school, such as lease of air rights or joint tenancy of the school building or school site, or through money acquired through land banking.

Category A generally,, includes the following methods:[1]

**1. Conventional Financing Through Tax Income**

General Obligation Bonds

A vote of the residents of a school district can approve the sale of bonds. The specific purpose and amount of these bonds must be approved by from 60 per cent to 66-2/3 per cent of the voters, depending upon the State laws. The indebtedness incurred, thereby, is retired by a tax on real estate property in the school district for the duration of the bond debt.

Tax Levy

The residents of a district can vote to be assessed a building-fund tax levy. These funds can be used to construct school buildings when a sufficient amount has accrued. Inflation in building costs is a primary drawback to this device; the school may never be built if inflation exceeds accrual.

**2. Additional Tax Revenue**

New Tax Sources

Voter resistance to additional property taxes has necessitated a search for new sources of tax revenue, such as gambling

1 This section of the study has made use of material prepared by Gary K. Stonebreaker of Advanced Planning and Research Associates, Kensington, Maryland, under a grant from EFL.

taxes, lotteries and sales taxes for school funding.

**3. State Aid**

State Aid by Outright Grant

State revenues are allocated to local school districts on the basis of some "equalization ratio" to defray construction costs.

Low Interest Loans

Some states make low interest loans to school districts on the basis of need. The state may also guarantee commercial notes or bonds to enable the district to get a lower interest rate.

**4. Federal Aid**

Outright Grants

The Federal Government will make these grants for special-purpose situations, such as vocational-training high schools.

Low Interest Loans

The Government can guarantee the loan of a school board to lower the interest rate. It also has made direct loans to school boards, but only in special circumstances. The indirect help by the Federal Government is useful. They have made favorable Internal Revenue Service rates for commercial loans made to school boards by banks and bank groups.

**5. Gifts and Loans**

Solicitation of Gifts

There has been some discussion of actively soliciting gifts in the manner of private universities and colleges. However, the returns from this venture were considered not worth the effort due to the competition of these private groups and the American tradition of tax-supported public education. It is possible for school districts, however, to accept gifts of this type.

**6. City Development Sources**

Urban Renewal

In Federal projects the local share to be contributed is 33 per cent. This can be an "in kind" contribution. The inclusion of school sites in these areas can be included in the 33 per cent contribution. The use of private developers on the school sites presents the potential for tax advantages to him and income advantages to the school boards, as does the shared occupancy possibility.

Aid to Impacted Areas

This has traditionally meant impaction due to military installations or government-oriented industry. Recently the meaning has been broadened to include the impact on local facilities of public housing projects.

Category B, generally, includes the following methods:

**1. Outside Income**

Air Rights

Leasing of air rights above school board property is possible where the cost of land is high and the income from the lease can finance the construction of the school facility. The financing is through tax abatement and rental agreements.

Shared Occupancy

In this procedure, a school facility shares a site or building with another user. For instance, schools and shopping centers are being combined. This method is more successful than air-rights leasing due to its wider applicability.

Land Speculation

The School Board can use its power to procure land for school purposes. The selection of this land can be based on its future value for a school and public facility location. The value of the land may become so high that it can be traded for other land of less economic worth but of equal, or better, school facility worth.

School as Landlord

The construction of certain facilities for the operation of schools may have benefits to the outside community. These facilities may be leased to commercial groups to provide income to the school board.

**2. New Approaches to Funding Long Term Debt**

Revenue Bonds

These bonds are sold on the premise that the income from the capital expenditure will pay off the bonds. School boards have traditionally been able to issue these bonds only for income-producing facilities such as stadiums, swimming pools, etc. With the advent of the leasing concept, the rent is considered income and revenue bonds have been paid off using it.

Commercial Bonds

Some school boards, in desperation, have gone to commercial banks to borrow money. The notes are paid off from operating funds in the general account.

Capital Stocks

A Building Commission is established which can sell stock to raise capital for borrowing further funds. The debt is retired by leasing school space to the school board.

Special Laws to Allow Schools to Levy Taxes Without Voter Approval

Some school districts have relaxed the requirement for a mandatory approval by the people before a tax can be levied. In these districts, a vote is required only if a sufficient number of residents demand it by petition.

Leasing Corporations

Many public and private corporations construct school facilities and lease them back to the school board. These corporations are organized as private bodies, city-wide public corporations, regional public corporations, or state-wide public corporations. They have the power to offer revenue bonds or stocks and the public corporations have the power to levy taxes.

More detailed discussion of these various methods follows. A critical appraisal of their strengths and weaknesses is necessary to determine both feasibility and desirability as solutions to the school construction crisis.

**1. Conventional Financing Through Tax Income**

General Obligations Bonds

There are two main restrictions on the use of general obligation bonds for school financing: debt limitations and the majority required for approval. Statutes usually limit the debt that can be incurred, even if 99 per cent of the voters approve it. The limit is normally a percentage of assessed property valuation. (10% of assessed valuation for St. Louis). Many urban districts have reached their bonding capacity before satisfying the demand for school space. St. Louis is using only 30,000,000 of their 170,000,000 capacity.

The majority required for approval of such bond issues, from 50 to 66-2/3 per cent, depending on the state, is based on the fact that issuance of such bonds creates a debt against future taxpayers. An increase in the school tax for operating expenses, on the other hand, requires only a 50 per cent majority in St. Louis and in most states.

Until 1970 if an increase in the school tax was defeated by the voters, the tax level dropped to a base level on which the schools could not be operated. This always necessitated a second or third election and gave the voters the option of not only defeating an *increase* in the tax but of affecting a *reduction* a school board faced with many defeats might settle for an operating levy actually *lower* than the one in force when the proposed increase was first voted on. Presently, the school board needs to go to the voters only if an increase in the operating levy is desired; otherwise, the levy remains the same as the previous year. If the increase is defeated, the levy also remains the same.

For many reasons, such as those discussed earlier in this study in reference to the St. Louis situation, school boards find it impossible to pass bond issues at the polls.

Tax Levies

This system, taxing now for a school to be built when a sufficient amount has accumulated, has been criticized as placing the burden of future education on the present taxpayers' shoulders.

The fact that this method, also, depends on the property tax means that it does not solve the problem of areas which lack high-tax-yield commercial and industrial installations. In urban areas, long neglect of maintenance and replacement programs can result in heavy demands for new construction that cannot be financed out of current revenues.

2. **Additional Tax Revenues**

Special taxes have shown promise in several states for support of grant programs for school construction or low-cost loans to school districts. Florida, for example, uses revenue from motor vehicle licenses to support its state-aid program. Barr cites several other cases in *Financing Public Elementary and Secondary School Facilities in the United States*, a United States Office of Education-sponsored study. Since, as Barr pojnts out, an average of only 15 per cent of construction costs come from state sources, many observers believe that a reform of the local taxing system, i.e., the property tax, is in order.

Those who oppose the property tax as a method of school and city financing say that it is essentially self-defeating. To raise property taxes, they say, is to discourage investment building and building ownership, thus driving middle and high income taxpayers to other areas. The city is then left to lower-income residents who not only do not provide solid property tax revenue, but demand high cost services such as low-income housing, a larger police force, increased medical care at city hospitals, and remedial educational services.

High property taxes also make it impossible to construct low-income housing without assistance. The tax-abatement necessary to stimulate building of low-cost housing then cuts into the tax rolls once again. Even without such tax abatement, high density development in itself produces an increase demand for services and may cancel out the gains in tax revenue.

1 Barr, W. Monfort, et al., in Financing Public Elementary and Secondary School Facilities in the United States, National Education Finance Project Special Study No. 7 School of Education, Indiana University, Bloomington, Indiana 1970.

Because higher property taxes are considered by many to eventually destroy the tax base of the city, some urban planners believe that voters are right in refusing property tax increases, even if they do it for the wrong reasons.

3. **State Aid**

Most state grant programs are restricted in terms of need, although Missouri gives no money for school construction no matter how severe the need.

Even those states that do distribute construction funds on that basis find the system fraught with difficulties. Assessment practices vary within a state, so one district may show a greater need for state assistance than another, although the disparity would not exist if both districts were assessed and taxed at the same rate.

In some states, this is resolved by state-determined assessments or a system of equalization ratios, but there is a built-in conflict between state and local authorities that can make a system fraught with time-consuming disputes.

Local officials want assessments set as low as possible so as to qualify for maximum aid; state authorities want them set as high as possible for a broader distribution of funds and lowered budget requirements. For these and other reasons, grant programs, in states where they exist, are often inadequately funded.

4. **Federal Aid**

In general, those who advocate abandoning the property tax as the vehicle for financing operation of city governments and school systems, often believe that massive federal aid for educational construction should be instituted instead.

Such observers believe that municipal governments and school boards do not have the authority to impose major taxes other than property and sales taxes. Since these powers reside at a higher level, they believe, the responsibility for these major capital expenditures should also be on a higher level. The City of St. Louis imposes an income tax. The authority for this power was granted by the State of Missouri. The only tax revenue income presently allowed the St. Louis Board of Education by the State of Missouri Education Statutes is the property tax.

### 5. Outside Income

Of the several approaches outlined earlier for generating additional income, only the air-rights approach is being used on a significant scale and only in areas of extremely high density and high land value.

Because leasing of air rights does not involve the school system in competition with the private sector, it avoids criticism at joint-occupancy and school-as-landlord methods. Lease of air rights does not undercut additional opportunities for private business; it creates them.

### 6. Lease-Purchase Concept

General obligation bonds permit a school district to spread payment of a large capital outlay over a long period. Lease-purchase plans are essentially the same except that the lessor, not the school system, is responsible for the outstanding debt on the building and equipment. The school system is only obligated for the one-year lease.

Therefore, while the school system eventually will own the facility, it manages to finance it outside of both a statutory debt limit and a stautory requirement of voter approval for such a long-term commitment.

This is the crucial advantage of leasing programs; certainly there are no economic advantages. The cost is almost always higher because the interest charges are greater.

Recent interest rates were found to be as follows as school construction:[1]

| | | | |
|---|---|---|---|
| General Obligation Bonds | 3.5% | – | 5.5% |
| Revenue Bonds | 4.0% | – | 7.5% |
| Commercial Notes | 4.0% | – | 12.0% |
| Commercial Mortgages | 5.0% | – | 12.0% |

1 The authors are indebted to Gary K. Stonebreaker of Advanced Planning and Research Associates, Kensington, Maryland for these tables.

The low interest rates cited on commercial notes and mortgages are possible in cases where the loan is categorized and tax-exempt by the Internal Revenue Service. Loans to public agencies, such as school systems, qualify a financial institution for such a categorization and similar privileges are extended to non-profit school building corporations.

The impact of these variations in interest rates can be seen in the following table, which compares the total interest costs of term mortgages:

| Terms | Interest Payments per $1,000 Principal (approximate) |
|---|---|
| 4% for 20 years | +/– $ 450 |
| 6% for 30 years | 850 |
| 10% for 30 years | 2,160 |

Higher future tax levies are then required to pay the higher interest costs in such lease arrangements. For this reason, most leasing programs are backed by special legislation that empowers school districts to impose special levies to pay the lease costs without requiring voter approval.

Adding these special levying powers gives an enormous amount of autonomous power to the school board since voters have no voice in either the lease agreement or the levy by which it is paid off.

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# 3

# Innovative Schemes

The following case study descriptions represent a few of the financing schemes now being used or attempted in cities and states around the nation.

Whenever possible, notes are included describing the authority given to the school board by state laws. In addition, a few "author's comments" are introduced where a comparison with St. Louis' situation seems especially pertinent.

## 1. THE ILLINOIS SCHOOL BUILDING COMMISSION

The power to construct elementary and secondary schools in the State of Illinois is not vested solely in the local school board, as as the case in Missouri. In Illinois, the School Building Commission, supported by an annual appropriation from the legislature, constructs schools and leases them to the local districts on an interest-free basis.

The current appropriation is $38,5000,000, with more funds anticipated in future budgets. The schools are designed and built under the supervision of the Commission and leased to the local district at a cost of 6 per cent of the capital cost of the facility per year.

No administrative fees nor interest is charged on the one-year optional renewal leases. At the end of the lease period, title to the facility is transferred to the local school district.

State-wide regulations and procedures established by the Commission have kept construction costs low. A high school, complete with air-conditioning, carpeting and all furnishings, was recently constructed at a cost of about $17 per square foot.

The benefits of the Commission are not available to all districts; need must be clearly demonstrable.

The local school district must be unable to meet school construction needs under its present bonding capacity. Voters must give approval for a special levy to pay the lease costs. Any time the district is unable or unwilling to renew an annual lease, the Commission is empowered to lease the building for other uses.

In Illinois, municipal indebtedness restriction is far more severe than in Missouri. Here indebtedness can be 10 per cent of the total assessed valuation; in Illinois the maximum limit is 5 per cent of the property value. For this reason, econ-

omically depressed areas and high-growth suburban areas were under particularly serious pressure in school construction. It is for these two problem areas that the Commission was created by the legislature.

## 2. NEW YORK STATE'S BOARD OF CO-OPERATIVE EDUCATIONAL SERVICES

The Board was created by the New York legislature to carry out a program of shared educational services on a county-wide level. Under this program, a county can enter into leases with realty firms for five-year increments of time. In Nassau County, for example, BOCES entered into an agreement with a private development corporation for the construction of buildings. BOCES pledged to rent the buildings for five years with an option to renew the lease for an additional five-year period.

At the end of ten years, the county has an option to purchase the buildings. BOCES can have buildings constructed on land that it owns or leases. Buildings can be leased with, or without, a purchase agreement.

## 3. THE NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

The Fund is a semi-public agency wholly devoted to construction of schools on joint-tenancy sites with housing, office buildings, or other projects. The Fund constructs the schools and is authorized to issue bonds to finance the construction, retiring them through lease income.

The Fund receives tax equivalency payments from the tenant in lieu of city property tax payments. To date, the Fund has not issued bonds, but has issued bond anticipation notes, short-term notes which have as security the Fund's power to sell bonds when it deems such a sale desirable.

The interest payments, so far a relatively modest 4-1/2 to 6-3/4 per cent, have been guaranteed to the developer by the City. When the project is completed, the contractor is paid and the school facility is leased to the system on a dollar-a-year basis.

If the joint tenant does not produce enough income to cover the debt service obligation, the Fund either uses surplus money from a project where income does exceed the debt service requirement or shares the deficit with the City.

This arrangement, obviously, requires a setting where land is in such demand that air rights are valuable. In St. Louis, land in many neighborhoods and sections is, at present, not a valuable commodity. The concept of air-rights leasing would not be applicable here; however, the concept of shared occupancy is potentially fruitful.

Numerous owners in deteriorating neighborhoods in St. Louis have simply abandoned formerly profitable rental property. Property taxes go unpaid; about $6,000,000 of such taxes are presently delinquent. Arson-for-insurance or tax loss is becoming an increasingly serious problem in the City. Land, in St. Louis is, for the most part, not a valuable commodity.

## 4. IOWA: LONG-TERM LEASE-PURCHASE AGREEMENTS MADE POSSIBLE BY THE LEGISLATURE

A Board of Education in Iowa was empowered to rent a room or rooms, when necessary, but the Board did not have the authority to lease structures from a builder with an option to buy if the voters had refused, previously, to authorize bond issues for such new construction.

This interpretation of the State law was clarified in several decisions such as Porter vs. Iowa State Board of Public Instruction, 144 N. W. 2nd 920, 924, and Cray vs. Howard-Winneshiek Community School District, 150 N.W. 2nd 84.

The legislature, however, recognized the demands and difficulties of acquiring school space and passed a series of amendments to the Iowa State Education Code. The section most specifically concerned with lease-purchase agreements, Chapter 278, reads as follows:

"The Board may, with approval of 60 per cent of the voters, . . . make extended time contracts not to exceed 20 years in duration, for rental of buildings to supplement existing schoolhouse facilities; and where it is deemed advisable for buildings to be constructed or placed on real estate owned by the school district, such contracts may include lease-purchase option agreements, such amounts to be paid out of the schoolhouse fund."

"Before entering into a rental or lease-purchase option contract, authorized by the electors, the board shall first adopt plans and specifications . . . and also adopt a form of rental or lease-purchase contract . . ."

The amendment further specifies that voters shall have the power to vote a tax "not exceeding five mills on the dollar in any one (1) year providing for lease-purchase option of school buildings".

The Iowa legislation, then, still retains voter control by requiring that 60 per cent of the voters approve the lease-purchase agreement, but it frees the board from any other restriction on its power to enter into long-term agreements. Comments by officials of the Missouri State Department of Education have led us to believe that the Education Statutes of Missouri and Iowa are similar.

## 5. THE INDIANA SCHOOL BUILDING CORPORATION

Indiana's debt limitation is one of the most stringent in the nation: a school district's debt cannot exceed 2 per cent of the actual assessed valuation. For this reason, many school officials use the non-profit school building corporation established by the General Assembly in 1947 and amended since that time.

In Indiana, a local non-profit Indiana School Building Corporation can be formed and non-dividend-bearing stock issued and sold to residents of the community. The Corporation then erects a school facility and leases it to the school district which pays a fixed rental and eventually becomes owner of the building. The stock is redeemed when the building corporation is dissolved, but no interest is ever paid on it.

The bonds sold, which are not an obligation of the school board, will be secured by a first mortgage on the school building and site.

Rates of interest in the State in 1964 for such programs ranged from 3.1 to 3.9 per cent. The bonds are sold as are any other municipal bonds by obtaining a bond rating, preparing a prospectus and advertising the bond sale.

In 1957 an act was passed in Indiana permitting private corporations to build and lease schools to local districts in essentially the same manner, with the exception that private money is used to finance the construction, as opposed to revenue bonds. The usual source of such funds are insurance companies. Tax exemptions for the mortgager under these circumstances permit a lower than normal interest rate, altho it is usually nevertheless higher than bond rates.

## 6. THE BUTTE COUNTY, CALIFORNIA, EXPERIMENT: THE USE OF COMMERCIAL MORTGAGE MARKET

Under California's Educational Code, a district can lease "temporary" or "portable" space for schools for up to seven years, in cases where voters may have refused a bond issue for construction, but where additional space is necessary.

The Butte County Junior College District, having had its first bond issue rejected, decided to use this legal power to lease all of its space and equipment, down to even athletic equipment, for about 4,000 students. In this way, the new community college went into operation with a minimum outlay of capital.

The district arranged for the purchase of equipment and simultaneously arranged bank financing through a regular commercial source. The bank then paid the vendor and, in effect, became the lessor to the district. (Because of a Federal regulation prohibiting a bank from becoming an "original lessor" a private citizen was brought into the act, who signed the agreement leasing the equipment to the district and, at the same time, assigned the lease to the bank).

If a school or junior college district cancelled or defaulted on a lease, it would leave the bank owning school property. For this reason, a special agreement was drawn up.

The manufacturer of the modular units of which the buildings were constructed agreed to buy the modules back from the bank in case of premature lease termination. This was made possible by a healthy market for used modules.

The success of the plan also depended on the fact that the educational code permits 7-year leases only on personal property. "Temporary" or "portable" structures, such as those made from the modules, are tehreby classified as personal as compared to real property and hence eligible for the 7-year leases. The willingness of banks to finance the plan was another important factor.

To reduce the cost of the commercial note financing of the facilities, the Internal Revenue Service gave the banks relief on the taxes for the monies used in this arrangement. This allowed the banks to lower the interest rate they charged on the notes.

## 7. BOWLING GREEN, KENTUCKY: INTERGOVERNMENTAL CO–OPERATION.

The Board of Education of the Bowling Green Independent School District conveyed to the City the title to the site of a proposed new school on the condition that the City would issue and sell revenue bonds for the construction of the new high school.

The new building was to be leased to the Board, with income from the lease being used by the City to pay off the revenue bonds.

The authority for entering into this agreement came from a state statute that allows a city to issue revenue bonds for the construction of facilities for a "public project."

The Court of Appeals ruled that a school building had an obvious public purpose and was a "public project." (Ky., 443 S.W. 2nd 243.)

A second question concerned the ability of the Board to transfer its property to the City. The Court of Appeals ruled that this was proper because of the authority vested in government agencies to make agreements among themselves, including transfer of property and leasing of property.

". . . school district may convey site for school building to City and lease back site as improved with construction financed by city's bonds . . ." (Ky., 443 S.W. 2d 243).

## 8. ST. LOUIS: LOCAL LEASING OF A FEDERALLY CONSTRUCTED SCHOOL BUILDING

The School Board of St. Louis is negotiating with the federal Department of Housing and Urban Development about the possibility of a school being built by HUD on HUD property and leased to the School Board for 40 years. The lease, since the School Board cannot make leases for more than one year, is a "good faith" instrument stating only that the lease will be renewed each year by mutual agreement.

The school is needed to serve the Blumeyer Public Housing Project, which contains a number of possible sites. The School Board is also considering a city-owned park adjacent to the HUD-owned land, if an arrangement can be worked

out by which the City and HUD trade comparable parcels of land.

## 9. FLORIDA'S STATE-SUPPORTED LEASING PROGRAM

A school district in Florida can enter into lease or lease-purchase agreements for school buildings of up to 30 years in duration, under a law recently passed by the state legislature. The agreements can be made with private developers or a state agency known as the Florida Development Commission.

So as to avoid a long-term commitment by the local property owners; however, the law stipulates that for any lease in excess of 2 years the district may not use any form of ad valorem taxation to pay the least costs.

For such long leases, the costs are paid from funds collected in the Motor Vehicle Licensing Department and then allocated to the local district by the State.

State approval is required before a community can make use of the program, which was designed to serve municipalities whose bonding power has been exhausted and who, nevertheless, still have clear-cut needs for more facilities.

## 10. THE BOSTON PUBLIC FACILITIES COMMISSION

A department of the city, the Boston Public Facilities Commission is charged with construction of all public buildings for the city. The result of a report made in 1966, BPFC was given the power to use particular financing powers already granted to the city.

The City Council is authorized to obligate the City without referendum for the construction of public facilities with the approval of the Mayor. Voters then have a 20-day period in which they can petition for a referendum on taking on the obligation.

If no referendum has been called for, the City can then issue general obligation bonds for the construction money and increase the tax levy as much as is needed to retire the bond debt.

The BPFC may also buy and sell certain city property with the approval of the Mayor, grant itself code and zoning ex-

emptions, make joint occupancy agreements with other public agencies, and, in one case, with a semi-private institution, a medical center.

## 11. CHICAGO PUBLIC BUILDING COMMISSION

The authority to issue and sell revenue bonds to finance construction of facilities for any city agency was vested in the Public Building Commission of Chicago when it was authorized by the State Legislature in 1955. The PBC is made up of the Mayor, 6 laymen, and representatives of the Chicago Park District, the Metropolitan Sanitary District, the Board of Education and Cook County.

The Board of Education, until 1968, took the sole responsibility for school construction. When it was found that the estimated costs of property acquisition, new construction and necessary rehabilitation of old schools would come to more than a billion dollars, the Board said that it felt normal financing procedures would not be adequate to meet such a demand.

A recommendation was made that the PBC take over 20 of the projects in which the need was most urgent. PBC revenue bonds have a legal interest limit of 7 per cent. The Board of Education leases the school buildings from PBC and pays for the lease and principal costs through a property tax that is levied over and above the present building fund levy.

An additional tax is levied to cover the cost of operation and maintenance of these school buildings for the duration of the lease. The PBC includes an average management fee of 2 per cent of the gross cost in its total cost figure.

The Board of Education is continuing its regular building program. The Board emphasizes that there are no specific plans to continue to use PBC after the 20 top-priority projects, totalling about $210,000,000, are completed.

## 12. VIBERNUM, MISSOURI: PURCHASE OF INCREMENTAL INTERESTS OVER AN EXTENDED PERIOD OF TIME FROM A PRIVATE DEVELOPER

The St. Joseph Lead Company constructed a school in Iron

County, Missouri, and sold interest in it to the local school district over a period of years. The case was the subject of an opinion given by the Attorney General and is treated at length in the section on alternatives in this report.

### 13. PARKWAY SCHOOL DISTRICT, ST. LOUIS COUNTY; INCREMENTAL LEASING OF MECHANICAL EQUIPMENT FOR A SCHOOL

The Parkway District has a $6,000,000 annual building program. Because of the district's rapid growth and the necessity for large amounts of construction, Parkway is at present at its legal debt limit of 10 per cent of the assessed property valuation.

Clarence Farnham, Superintendent of the District, has entered into an arrangement with the local gas company in an effort to solve the conflict between the debt limit and pressing need for new facilities.

Laclede Gas Company is going to install the heating and cooling equipment in a new school, approximately a fifty of the total construction cost. The equipment will then be leased by the school district. At the end of the lease agreement, composed of annually renewable contracts, the school will own the equipment.

Farnham said that the same sort of agreement has been discussed with Linclay Corporation, a large local developer, for the entire cost of constructing a school.

The district would not be restricted by the statutory requirement for open bidding, which requires that the contract be awarded to the lowest qualified bidder.

Farnham said that Linclay would be hired merely as coordinator. All the subcontracts would be bid competitively and thus the project would be in compliance with state law.

School officials emphasize that, in the Parkway case, inability to get voter approval for bond issues is not the problem. "We have fine public support and there is not any question but that bonds are the most economical way to finance construction", Farnham said.

The St. Louis City Board of Education has recently entered into a contract under a similar agreement. It involved the air-

conditioning and gas services for a re-conditioned high school building.

## 14. ILLINOIS LOCAL SPECIAL PURPOSE SCHOOL CONSTRUCTION TAXATION DISTRICT

In Illinois a Special Assessment District, similar to sewage or water districts, can be established by defining a boundary, obtaining on a petition a sufficient number of signatures approving a referendum on the district, and finally approval by the voters within the boundary to establish the special assessment district.

The residents of the district can then approve the sale of bonds to construct the facilities for which they were chartered. The bonds can be either revenue or general obligation.

School Construction Special Assessment Districts have been established in the above manner. They build school facilities with the proceeds of the bond sales. They retire the bonds through self-assessment. The school facilities are used by the Board of Education for School purposes. The agreements between the Special Assessment District and the Board of Education have included "Dollar-a-year" leases, "Good will" leases and incremental-purchase arrangements.

In the latter, two agreements the proceeds of the lease can be used to maintain the facilities or help retire the bonds with a subsequent tax assessment reduction.

Private not-for-profit corporations or quasi-public corporations can offer revenue bonds. The value of these bonds is based on their ability to pay. They may also obtain money on the commercial market.

## 15. GENERAL SERVICES ADMINISTRATION: THE FEDERAL GOVERNMENT'S PROCEDURES AND EXPERIENCE

The GSA is established to procure space for governmental agencies. They can obtain this space by outright purchase, through lease agreement, or by lease-purchase contracts.

The lease and the lease-purchase phase of their operations is of interest and concern to this report. The sequence of events is as follows:

1. Procedures:

a) A Federal Agency prepares a request for space. This document is given to the GSA Assignments and Utilities Branch for screening through GSA standards and agency standards. The screening is done in cooperation with the agency to fund the space acquisition.

b) A description of the space is prepared giving the general location and the amount of space to be used.

c) A market survey is performed by placing a formal public notice in appropriate locations. The notice is a request for offers to negotiate a lease based upon the description (b).

d) The market survey produces an inventory of available space matching the requirements. From the available space descriptions, a set of "Bench Marks" is established. They state what is available, and the acceptable deviations from the original requirements.

e) The market survey is screened for space matching the Bench Marks. These are considered suitable responses. A report of the "Findings and Determinations" is prepared. This document is approved by the GSA, allowing the negotiations for procurement of space to begin.

f) The "Bench Marks" are formalized. They are a coalescence of what is necessary and what is available.

g) As negotiations with the responses matching the formalized Bench Marks begin, a comparison of the total costs of lease-purchasing the space, purchasing the space, and leasing the space is made. The means of procuring the space with the least total cost is selected. The negotiations then continue to this end.

Contracts include (1) maintenance. The least cost is regulated by the (2) Government Economy Act of 1932. Also states that the (3) rent is paid in arrears. No escalator clauses; however, a (4) review is usually called periodically. This usually consists of a market survey. The rent price can go up or down, depending upon the real estate.

i) GSA prepares the plans and the lessor must fix the space. Any deviations from Bench Mark is paid for - the back of offer contains rates for deviations. In the Bench Mark, the building "use-time" is specified as 7:00 a.m. to 6:00 p.m. Monday-Friday. Extra time is paid for.

j) Renewals are usually routine. They are required to do a market survey but usually stay where they are.

2. Leases:

a) Fixed leases in 5-year length or reviews.

b) Twenty-year leases have an escalator clause. Where a submittal is made for a raise in rent, it is reviewed every X years thru mutual agreement.

c) In renewal options, government has only choice in raising rent.

d) In negotiations, only the initial term lease is considered.

3. Fundings

a) An agency must get the money for the space - new or expanded - in their budget. It is then transferred to GSA.

| | | | |
|---|---|---|---|
| Sequence due to budget preparation | 1st year | — | Agency money |
| | 2nd year | — | Transfer to GSA |
| | 3rd year | — | GSA budget |

4. Negotiations

a) GSA used to ask for sealed bids but this was too limiting. They then went to Negotiation Solicitations.

5. Bench Marks

Also found the preparation of Performance-Specifications for school is too limiting. They now use Bench Marks.

6. Lease/Own Ratio.

They try to keep a balance of 50% lease and own ratio in an area. A total lease value of 3.10 is the exchange value for purchase or 20-year lease. The minimum lease period is 30 days.

## 16. PRIVATE CORPORATION CONSORTIUM APPROACH TO EDUCATION

The State of Colorado allows school districts to acquire educational facilities on a lease-purchase basis. A school district there has made an agreement with Radio Corporation of America (RCA) and Schaver Corporation of Salina, Kansas, under which those two corporations will provide a school building on property the school district owns.

The school facility is planned, designed, constructed and financed through RCA and Schaver. The school board then lease-purchases the facilities from RCA.

In this particular case, the term of the lease was 15 years, the interest rate was 9½% and the dollar value was 3½ million. If the school board had used the traditional financing mode of general obligation bonds, the interest rate would have been 6%. The 3½% is considered the price of not going to the citizens for approval in a vote. By this action, the lease costs were paid by a 3½% mil capital fund tax levy applicable without voter approval.

The lenders were only willing to finance the school if a long term agreement existed. They guaranteed the interest rate for the 15 years. The school board wanted a yearly renewable lease with the penalty of variable interest rate but the long-term lease was safer in the lenders' view and was adopted.

The potential of the RCA program lies in a larger context than merely that of school building construction. The intention is to expand this concept to include the provision of educational services. This would include staffing, equipping, and maintaining the local educational system on the basis of lease, or lease-purchase, agreements with school districts.

In these cases, RCA would provide the educational programming of demographic surveys and community involvement with the planning process; the architectural services to design the facilities required, the construction services to build these facilities, the financing agreements and operations to implement the plan, and the staffing, equipping and managing of the facilities and plan. This is called a systems management approach to education.

The economies of this arrangement are in the potential of the large-scale operation - volume buying of equipment, services and facilities. Under these arrangements of leasing and lease-purchasing, the objective of obtaining educational packages at a lower cost and without the cost uncertainty of vote approval might be realized.

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# 4

# Powers of School Boards

The procedures discussed in the previous section all appear to be workable means of obtaining school space. There are advantages, disadvantages, inequities and benefits in each of the methods of financing. They would all be applicable to the St. Louis School District were it not for restrictions imposed by the Missouri State Education Statutes.

To obtain an idea of the sorts of alternative means of financing educational facilities that would be feasible in Missouri, a list of the powers held by other school boards and used to implement the various alternatives was inventories.

These were then compared with the powers held by Missouri boards. The chart that follows outlines the comparison. A "yes" signifies delegation of that power to school boards in the particular state statutes. An Appendix contains a reference to the specific statute granting such authorization for each state considered.

In Missouri, as in many other states, the general rule defining the powers of bodies such as school boards is that they are limited to those powers expressly conferred on them by state statute or necessarily implied from those powers specifically conferred.

Given this caveat, it is not surprising that innovative approaches to financing are controlled by school board attornies. Yet, this is not to say that in some states where the school crisis is also acute, legislative changes have not given school districts greater flexibility in order to accomplish their primary purposes.

The Powers Chart displays a "yes - no" comparison of the powers accorded the St. Louis City Board of Education by the Missouri State Statutes and those accorded to the board of education of other states.

The power as they relate to Missouri Boards of Education and specifically to the St. Louis Board with comments and evaluations of their legality are listed in order, as follows:[1]

**1. To Raise Money by Taxation**

*a) Levy without a vote - yes, with limit*

*b) Levy with a vote - yes*

The primary legal controls are sections 11(b) and 11(c) of Article X of the Missouri Constitution. Section 11(b) provides that levies may

1 Legal Consultant for this phase of the study was Jerome Pratter.

Legend

Yes Legal Authority exist
No Legal Authority not exist
– Unable to determine if legal authority exists

## School Board Powers or Agency used in the Conduct of Financial and Physical Affairs as the Powers are Granted by Various State Statutes.

| Item | Missouri | Illinois | Iowa | New York City |
|---|---|---|---|---|
| 1. To Raise Money by Taxation | | | | |
| With Vote | Yes (with limit) | – | – | – |
| Without Vote | Yes | Yes | – | – |
| 2. To Borrow Money | | | | |
| With Restrictions | Yes | Yes | – | – |
| Without Restrictions | No | No | – | – |
| From State Government | Yes | Yes | – | – |
| From Federal Government | Yes | Yes | – | – |
| From Private Source | Yes | Yes | – | – |
| 3. To Issue General Obligation Bonds | | | | |
| With Vote | Yes | – | – | – |
| Without Vote | No | – | – | – |
| 4. To Issue Revenue Bonds | | | | |
| With Vote | Yes | – | Yes | – |
| Without Vote | No | Yes | – | – |
| 5. To Receive Money | | | | |
| From State Government | Yes | Yes | Yes | Yes |
| From Federal Government | Yes | Yes | Yes | Yes |
| From Foundations | Yes | Yes | Yes | Yes |
| As Gifts | Yes | Yes | Yes | Yes |
| As Speculative Lessor | No | No | Yes | Yes |
| As Seller | Yes | No | Yes | Yes |
| 6. To Spend Funds | | | | |
| To enter into Contracts | Yes | Yes | Yes | Yes |
| To Buy | Yes | Yes | Yes | Yes |
| To Lease or Rent | Yes | Yes | Yes | Yes |
| To Maintain Property | Yes | Yes | Yes | Yes |
| To Demolish Property | Yes | Yes | Yes | Yes |
| To Remodel (own Property) | Yes | Yes | Yes | Yes |
| To Remodel (leased Property) | Yes | Yes | Yes | Yes |
| 7. To Allocate Funds | | | | |
| To (and from) Teachers Fund | Restricted | – | – | – |
| (ditto) Incidental Fund | Restricted | – | – | Yes |
| (ditto) Textbook Fund | Restricted | – | – | – |
| (ditto) Building Fund | Restricted | – | – | – |
| (ditto) Debt Service Fund | Restricted | – | – | – |
| 8. Eminent Domain | Yes | Yes | Yes | Yes |
| 9. To Contract beyond Term of Office | No | Yes | Yes | Yes |
| 10. To Establish Commissions or Parallel Corporations to Enter into Agreements beyond Term of Office | No | Yes | Yes | Yes |
| 11. Do all Contracts have to be on Competitive Bid Basis | No | No | No | No |
| Amount Limit | Yes | Yes | Yes | Yes |
| 12. To enter into Intergovernmental Cooperative Agreements | Yes | Yes | Yes | Yes |
| 13. To engage in Land Banking by Purchasing Property beyond present needs | No | – | – | – |
| 14. Can School District act as Prime Lessor | No | – | Yes | Yes |
| 15. Lottery for Revenue | No | – | Yes | – |
| 16. Create Subdistrict Assessment Areas | No | – | – | – |
| 17. To Establish Sinking Funds | – | Yes | Yes | – |

be made without a vote if they do not exceed $1.25 for each $100 of assessed valuation. Section 11(c) controls levies necessitating voter approval.

Section 164.021 RsMo Supp. 1967 deals at greater length with the voting procedure. The complexities of the school tax election procedure are extensive as are the ramifications of defeat at the polls, etc. District boards may set tax election dates (Sec. 162.561) and raise tax levy rates on their own for voter approval (Sec. 164.021).

**2. To Borrow Money**

*a) Without restrictions - No*

*b) With restrictions - Yes*

Specific borrowing limits as to purposes and amounts are set by statute. Section 164.141 provides for issuing bonds for purchasing ground, erecting and furnishing schools, anc acquiring busses. Section 164.161 has detailed loan limits: 20-year maximum period, with a debt ceiling being the district's present indebtedness and new debt not exceeding 10 per cent of the value of tangible property as shown by the last assessment, and with 95 per cent par value.

**3. To Issue General Obligation Bonds - Yes**

This power is recognized by statute. Section 164.131 RsMo, for example, discusses the election procedures including the necessity of carefully stating the purposes and amount of the bonds. The recognized purposes are site acquisition, buildings, additions, furnishings, and busses. The section stipulates a maximum interest rate of 8 per cent.

**4. To Issue Revenue Bonds — Yes, but limited**

Section 164.231 allows the 6 largest districts in the State to issue revenue bonds after voter approval but only for athletic facilities. The basis for this restriction is clearly the belief that athletic facilities are needed and can legitimately produce income without the district going into a peripheral business, such as building offices. More will be said on this subject later in this study.

**5. To Receive Money - Yes, generally**

School districts generally may receive money from any source (federal and state government, foundations, gifts, and from sale of property). Yet, the source of money is subject to the general statutory limits. Section 163 specifically governs state aid while Section 166,101

provides a procedure to handle difficult gift cases. However, there is no authority for doing business to raise money, as, for example, constructing an office building with rental space.

**6. To Spend Funds - Yes**

Within the general area of providing for school facilities and education, boards are free to spend funds.

An opinion by the Attorney General (178-1968) stated that Missouri case law (Kemper vs. Long 212 S.W. 871; Hart vs. Board of Nevada, Mo., 252 S.W. 441) gives some latitude in how best to expend funds to provide schools. Nevertheless, the opinion did go on to say that, as for vehicles such as tenancies-in-common, the basic rule is that the board must control the part of the facility they own. Leasing space was approved in Kemper as was the remodelling of leased areas.

**7. To Allocate Funds - Restricted**

Section 165 provides detailed accounting and investment rules which inhibit district allocation powers. Section 165.011 outlines the five accounts to be created and if and when money may be passed between these accounts. The funds are: a) teachers b) incidental c) free text-books d) building and 3) debt service.

Section 165.057 carefully spells out the rules for investment of surplus funds. The rule states that if 6 months' surplus exists, such money may be invested in open time deposits for 90 days, certificates of deposit, state and federal bonds.

**8. Eminent Domain - Yes**

Section 177.041 clearly gives any school district the power to acquire real property.

The district can acquire property ". . . for any purpose for which the district is authorized by law to acquire property . . ." using procedures outlined in Chapter 523 – Condemnation Proceedings of the Missouri Revised Statutes.

**9. To Contract Beyond the Board's Term of Office – Generally, No**

Language in the Attorney General's Opinion 178-1968 does not allow a district to acquire facilities over time if contract attempts to bond the district to pay beyond the current school year. Also, relying on Section 165.021.6, district cannot honor warrants for amounts beyond excess revenue and income of the district beyond the current school year.

On the other hand, Section 177.171 allows long-term contracting for supplies and textbooks. However, the general rule, as stated in 70 ALR 794 and 149 ALR 336 allows bodies such as school boards to contract beyond their terms of office for proprietary or business functions and not governmental or legislative functions.

Therefore, contracts with teachers, superintendents, etc., may be long-term. The binding factor would be the revenue rule in the case of metropolitan school district beset with funding problems.

**10. To Establish Commissions or Parallel Corporations to Make Long Term Contracts or Erect Structures - No**

Both these routes would be interpreted as unauthorized acts aimed at circumventing statutory safeguards. Therefore, legislative enactments would be necessary to do what is done, for example, in Indiana or New York.

**11. To Award Contracts on a Basis Other Than Open Competitive Bidding — No.**

Section 177.161 states that if an amount in excess of $1,000 is involved for supplies, building or repairs, the lowest responsible bidder must be used.

**12. To Make Intergovernmental Co-Operative Agreements - Yes.**

Clearly these arrangements must be made so long as they are for legal purposes. A recent Attorney General's opinion (167-1969) validated such a body in St. Louis County, and 102-1970 approved a grant-in-aid agreement between a school district and the federal government for a school community park (cited in 177.101 supplement).

**13. To Engage in Land Banking - No, unless Clearly for School Uses**

This investment mechanism would go in the face of Section 165.057 as described in Point 7.

**14. To Act as a Prime Lessor for Added Revenue - No**

As is the case with Point 13, activity would involve an illegal investment.

**15. To Finance School Construction Through a Lottery - No**

Without legislative approval, such an activity would be illegal.

16. Private Corporation Consortium Approach to Education

There is, at present, no statutory authority on which to base such an approach. The Missouri statutes do recognize specialized tax districts and allow assessments for special benefits conferred, but only in clearly defined cases such as levee districts or parks.

Based on these examples, an argument might be made for special subdistrict school benefits and assessments, but statutory authorization would still be a necessity.

Of these 16 questions asked concerning the powers of a Missouri School Board, the negative answer on long-term commitments by a board would appear to be a critical one. The following excerpt from an opinion by the Attorney General (359-1968) is clear-cut:

> "It is the opinion of this department that a county cannot legally enter into a lease-type agreement for the purchase of personal property on a payment plan extending over a period of one year or more with the understanding that, at the termination of the lease, the County is to receive title to the property . . ."

This is not lawful, the opinion continues:

> ". . . when there is not sufficient unobligated funds in the County treasury to pay the purchase price at the time the lease is entered into, unless the County has, by a vote of the people, voted to become indebted for the amount of the purchase."

The lease-purchase is clearly considered disguised installment purchasing.

For this reason, the "good faith" or "good will" lease has been employed. In this case, there is no 20-year contract, but a contract for a single year that on "good faith" each partner to the agreement accepts will be annually renewed by the other.

The renewal clause can only be written into the lease agreement if there is no purchase clause in the contract. If both are in a contract, it is considered illegal (Sagar vs. City of Stanberry, Missouri, 336 Mo. 213, 78 S.W. 2d 431).

Courts in other states have held different views on the right of a governmental body to incur indebtedness. In Byram vs. City of Los Angeles (36 C 2d 694; 227 P. 2d 4), the California court ap-

peared to take a pragmatic stand on the conflict between need and legal restrictions.

> "The constitutional limitation on a County's indebtedness (Const. art. XI, section 18) does not invalidate a purported lease requiring a county to pay an amount in excess of such limit for the privilege of occupying a court building to be constructed on its site by the 'lessor', since the county's duty of providing adequate quarters for courts is mandatory and the obligation represented by the contract is one imposed by law and not an indebtedness within the constitutional limitation."

This ruling apparently indicates a willingness to admit that the provision of quarters for the operation of mandated governmental services takes precedence over limitation on debt.

In the same case, the Court said:

> "The constitutional limitation on a county's indebtedness is not violated by an instrument requiring a county to make monthly payments to a building owner which in themselves are less than such limitation although the total of contemplated payments exceeds the limit . . ."

St. Louis is, at present, $140,000,000 below its debt limit. Missouri courts, however, have made no such liberal interpretations of a governmental body's authority to enter into long-term agreements as have the California courts.

A law passed in the Fall of 1970, however, could have far-reaching implications. Formally, St. Louisans had to approve even the smallest increase in the operating levy or the levy automatically reverted to $1.25 per $100 of assessed valuation.

This situation justifies the courts' former rigid position on a long-term agreement. The current levy, for example, is $2.69. How could a board enter into a long-term, lease-purchase, based on that income when a loss at the polls would make it drop to $1.25?

**Under the new law, however, defeat of a tax increase does not mean the tax reverts to $1.25 - the levy merely remains at its present level.**

In an election May 13, 1971, for example, the board requested approval of an increase from $2.69 to $3.23 The increase did not pass, although only a simple majority was required, but the levy did not fall to $1.25.

The new law, some observers believe, could enhance the board's ability to enter into long-term contracts. No school board, as yet,

has sought an opinion on this. Legal opinion suggests that, at present, only a true lease - not a lease-purchase agreement - would be acceptable under these conditions.

To sum up current leasing or lease-purchase powers across the country: California, since recent legislation coming out of the Byram vs. City of Los Angeles case, permits 7-year leases on "temporary" or "portable" buildings if cancellation of the lease creates no present debt.

In Indiana and Illinois, a state-wide or county-wide authority has the power to enter into undisguised lease-purhcase agreements.

Local school boards in Iowa dn Florida have the authority to enter into undisguised lease-purchase agreements for time periods of up to 40 and 30 years, respectively.

As a minor footnote, it might be noted than an 1894 court case involving the St. Louis School Board (Diffender vs. Board President, 120 Mo. 447) describes a number of leases into which the board had entered from the time the school district originated, 1833, until the year of the case.

The statute under which the school board had that authority is no longer on the books, however. What was widely practiced in the 19th Century is not, at present, possible.

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# 5

# Alternatives

In an effort to summarize the complex transactions that are potential between a school board, the city, the state, and Federal Government, public corporations, private developers, and money sources, a computer program was used to make a series of descriptive statements about the transactions. These dealt with land ownership, title transfer, leasing and funding. Out of the thousands of descriptive statements produced by the computer program, a set of six broadly inclusive hypothetical plans were selected and examined in depth. The list was intended to include the most promising aspects found in the alternatives studies. The St. Louis law firm of Bryan, Cave, McPheeters and McRoberts was asked to give opinions on these proposals in the context of the statutes and court precedents under which the St. Louis Board of Education functions.

The six proposed plans are:

a) Creation of a special school-construction district within the overall boundaries of the school district.

b) Deeding school property to a public corporation and then leasing it back after it is improved.

c) Purchase of improvements over a prolonged period.

d) Acquisition of urban renewal land, part of which is then used for school functions and part of which is leased.

e) Lease-purchase.

f) Voter approval of lease-purchase.

## PLAN A: CREATION OF SPECIAL ASSESSMENT DISTRICTS WITHIN THE ST. LOUIS SCHOOL DISTRICT

### Procedure

The hypothetical procedure would be as follows:

1. The School Board declares and defines special assessment districts within its boundaries.

2. The voters in the special district are asked to approve the sale of general obligation bonds, based on the assessed value of property in the district.

3. The bonds are retired by a special tax on property in the special district, in addition to the regular tax levies for operation and debt retirement in the district as a whole.

4. The special assessment tax lasts only as long as it takes to retire the bond.

Legal Opinion

The difficulty inherent in this proposal, Bryan, Cave, said is that there does not seem to be legislative authorization for it. Section 26(b) of Article VI of the Missouri Constitution provides that

> "...a school district by a vote of two-thirds of the qualified electors voting thereto may become indebted ..."

This constitutional provision is implemented by Section 164.151 R.S. Mo. 1969 which states:

> "At elections on bond issues in all districts, the voters shall vote by ballot . . . if two-thirds of the votes cast are for the loan . . . the board may . . . borrow money. . . "

Neither provision allows for a vote by a part of a school district and legislation authorizing school taxes must be strictly construed. See 79 Corpus Juris Secundum School Districts, Section 323.

If the legislature creates a special school district, would it be constitutional? the lawyers asked. Special districts with taxing powers have, of course, been successfully created in the past. The most recent special district was the Zoo-Museum District approved by voters in St. Louis and St. Louis County in March, 1971. Formerly, City Art Museum and the St. Louis Zoo were supported solely by a portion of the property tax paid by property owners in the City. Today, residents of St. Louis County will also be taxed to support the two free institutions and a small heretofor privately supported science museum.

If the special district consisted of only the affluent portion of the school district, would not a re-districting or a private school accomplish the same purpose Bryan, Cave asked.

Author's comment:

The creation of a special construction sub-district could conceivably lessen the voter resistance encountered in recent district-wide attempts to win passage for bond issued.

A school tax increase was defeated on May 13, 1971, primarily becasue of a belief on the part of residents of the white South Side that a disproportionate amount of their tax money is spent on the black, low-income North Side schools.

Almost all of the $5,000,000 the School Board receives annually in Federal aid is, in fact, spent in the black poverty areas.[1]

1 Kuehner, J. Ernest

"The people who don't have to pay the property tax will always vote for it", one South Side resident said. "The people who have to pay for it, like myself, will vote no."

Under Plan A, however, the voters in the special district would know that the taxes they are being asked to impose on themselves would be spent in their sub-district.

Several problems, however, appear to be built into this approach. Since the value of the bonds is based on the assessed value of the property in the special district, it might not work in a poverty area where there is insufficient property wealth to raise an adequate amount of money.

(It is possible in Missouri to vote a building tax and then let it accrue for a number of years until a sufficient amount has accumulated).

Since the state statutes specifically state that a district may become indebted "by a vote of two-thirds of the qualified electorate", it would require legislative authorization for indebtedness to be undertaken by fewer than two-thirds of the voters in the entire district.

**PLAN B:**

**DEEDING THE SCHOOL BOARD PROPERTY TO A PUBLIC CORPORATION AND LEASING THE IMPROVED SCHOOL SPACE**

Procedure

The hypothetical procedure would be as follows:

1. The School Board deeds property to a public agency.
2. The public agency obtains funds to improve the property.
3. The School Board leases the improved property from the public agency.
4. The School Board could use an existing city agency or establish a separate public corporation with the ability to obtain funds from a wider variety of sources than are available to a school board.

Legal Opinion

Bryan, Cave, reported that Section 177.011, R.S. Mo. 1969 would probably make this plan unfeasible. The Section states:

> "The title of all schoolhouse sites and other school property is vested in the district in which the property is located. All property leased or rented for school purposes shall be wholly under the control of the school board during such time.

No board shall lease or rent any building for school purposes while the district schoolhouse is unoccupied, and no schoolhouse or site shall be abandoned or sold until another site and house are provided for the school district."

Author's Comment:

The strong point of this proposal seems to be the fact that the public agency could obtain funds in many ways. Private money could be obtained; revenue bonds - with the "good faith" yearly leases from the school board as the source of revenue - could possibly be sold.

Ernest Yehling, real estate supervisor for the School Board, said that the board once owned a considerable amount of land, but disposed of its last piece of income-producing property about 15 years ago.

Dr. Sam Lawson, Treasurer of the School Board, said that the only unused land presently owned by the board is the site of a former public schools stadium. "Buying improved land for a school means uprooting people and losing assessed valuation", Lawson said. "So, if we have land where we could some day put a school, we hold on to it."

Bryan, Cave said they doubt whether a school could be built on the site using Plan B. They recommend, at minimum, that an opinion be sought from the Attorney General before proceeding with such a plan.

**PLAN C:** **PURCHASE OF IMPROVEMENTS OVER A PROLONGED PERIOD**

Procedure

The hypothetical procedure would be as follows:

1. The School Board designates a site for improvement.
2. The School Board gets bids and awards a contract to a developer.
3. The developer agrees to sell the improvements back to the board in yearly increments of a specified number.
4. After all increments are paid to the developer, ownership of the improvements passes to the School Board.

Legal Opinion

In this case, improvements could cover expenses ranging from the installation of air conditioning to the complete construction of a school building. The developer and the School Board agree to exchange the dollar value of a 1/X interest in the building each year for X years in return for the school board's ownership of that 1/X interest.

"Depending on the mechanics used, such a scheme may be legal", Bryan, Cave, wrote in its evaluation report. If the contractor is willing to sell the improvements to the school board over a period of

years, with no obligation on the part of the school board to make a purchase in any given year, then such a scheme is probably legal.

The lawyers cited Opinion 178-1968 by the Attorney General. The letter seeking the opinion and the response follow:

The official opinion is issued, the Attorney General wrote to State Representative Marvin L. Dinger of Ironton, Missouri, in response to your request for a ruling. You inquire whether or not a public school district can lawfully acquire an undivided part interest in realty as a tenant in common. Your inquiry states:

> St. Joseph Lead Company is willing to build and pay for a school for the use of Iron County Consolidated School District No. 4, at Viburnum, Missouri, according to plans and specifications approved by the School District.
>
> It is the wishes and desire of the Board of Education of that district to eventually acquire title to this property, but in order to have sufficient funds, this will require a period of approximately fifteen years. There would be no contract in this regard.
>
> Is it lawful for the school district to acquire an undivided interest, such as 1/15 interest (to be granted to it by deed) each year until the entire interest or ownership has been acquired?
>
> Authorities lead us to the opinion that school boards may acquire buildings for school purposes by any common method of legally acquiring possession or ownership of real estate. This would include tenancies in common. However, we further are of the opinion that any arrangement must vest control of the property wholly in the school board as to that part and during the time which the property is used for school purposes.
>
> Section 177.011, RSMo. Supp. 1967, states:
>
> > ". . . All property leased or rented for school purposes shall be wholly under the control of the school board during such time . . ."
>
> Although this statute expressly mentions only lease-hold interests, we consider it to express a public policy that control of premises when used for school purposes must be exclusively in the school board and cannot be shared. Thus, where a board acquires ownership of realty through the purchase of an undivided partial interest, it is necessary that the board establish exclusive control of the premises when and

where they are used for school purposes. This may be done by appropriate lease or contract arrangements.

Our opinion rules only on the legality of methods of acquiring possession and ownership of realty for school purposes. Whether or not a particular method is advisable is a matter within the sound discretion of the board of education."

Conclusion

"It is the opinion of this office that six-director school district school district may acquire ownership of realty by purchase of an undivided part interest as tenant in common. However, as to that part and during that time which the premises are used for school purposes, exclusive control must be vested in the Board of Education of the District.

The foregoing opinion, which I hereby approve, was prepared by my assistant, Louis C. DeFeo, Jr."

Yours very truly,
(signed) Norman H. Anderson
Attorney General

Author's Comment:

Plan C, for the purchase of improvements over a number of years, appears to be the most promising, Bryan, Cave, said. The question of its legality appears to turn on whether or not a contract is drawn up that obligates the district for more than one year and whether the school board has exclusive control over the premises used for school purposes. If such control is vested in the board and if no contract binding the district for more than one year exists, there appears to be no impediment - other than finding a "donor."

St. Joseph Lead Company, in effect, "donated" control of the school building to the board, during the 15 years in which the board purchased annual 1/15 interests. No contract was involved in the plan.

**PLAN D:**

**THE SCHOOL BOARD USES THE RESOURCES OF A FEDERAL URBAN RENEWAL PROGRAM TO GENERATE INCOME TO REDUCE CAPITAL EXPENDITURES**

Procedure

The hypothetical procedure would be as follows:

1. An area of the City is declared a Federal Urban Renewal Area.

2. The School Board assumes control of a site for a school in the area as part of the City's "in kind" contribution.

3. The portion of the site in excess of that needed for the school is leased to a developer.

4. The income from the lease is used to finance the school construction. The developer is envisioned as being a large scale project such as a shopping center.

Legal Opinion

Bryan, Cave says that this plan means that the school district would be actually going into business on a portion of the land it acquires.

There does not seem to be any statutory authority for this kind of investment in Missouri, the legal counsel said, adding that, without such authority, such investment would be prohibited. Corpus Juris Secundum, Schools and School Districts, Sections 334 through 338, says that the custody of school funds depends on the terms of the statutes relating thereto.

No authority is given in Section 165.051 R.S. Mo., which states how surplus funds may be invested, for the kind of investment contemplated in this scheme, the lawyers said.

Author's Comments

It is interesting to note, however, that the school board is already in the landlord business at its headquarters building

Four floors of the downtown office building are used for school board administrative offices. The ground floor, second and fourth floors are leased to private firms.

**PLAN E:** **THE ST. LOUIS SCHOOL BOARD CONTRACTS WITH A CORPORATION TO PROVIDE SERVICES**

Procedure

The hypothetical procedure would be as follows:

1. The School Board contracts with a private corporation for the provision of classroom facilities on land owned by the board.

2. The facilities are bought from the corporation on a term purchase or lease contract. The Board's collateral for the purchase is the land.

Legal Opinion

It is Bryan, Cave's opinion that the statutes previously cited would seem to prohibit this scheme.

For example: if the scheme involves the purchase of property over a period of time, with, say, the school board's obligation being evidenced by a note or contract and secured by a deed of trust, it would be prohibited by the constitutional provision and statute previously cited, which prohibit indebtedness in excess of current revenue.

Converting the agreement into a form of lease, which could be construed to be a disguised time purchase agreement, would not solve the problem. It, too, would seem to violate the constitution and the implementing statute.

If, on the other hand, it is a true lease, necessitated by the lack of funds necessary for building the school facilities, it is possible that the prohibition against leasing under Section 177.011 previously cited could be overcome. See Kemper vs. Long, 212 S.W. 871, where leasing was allowed a school district where the voters had refused to authorize funds to erect a high school, the lawyers advised.

In the case of Kemper vs. Long, a school district rented a room in which it constructed a high school.

Section 177.091, RS Mo. Supp. 1967, states as follows:

> "The school board in each six-director district, as soon as sufficient funds are provided, shall establish an adequate number of elementary schools . . . (and) may also establish high schools . . ."

The Court construed the word "establish" as used in this section as referring to the school rather than the site and building." (The section says that a board may also procure sites and erect and furnish buildings thereon).

The Court states (1.c 872,873):

> " . . . The legislature did not intend to preclude an arrangement for high school buildings in such districts, in circumstances like those appearing in this record, by means other than the purchase of sites and the erection of buildings thereon by the district . . ."
>
> "In such circumstances, since a building is necessary, and since the board is not confined by this section to erecting a building, the board is left free, so far as this section is concerned, to acquire one by other lawful means. The word 'establish' has itself been held to include power to rent."

**PLAN F:** **ST. LOUIS VOTERS ARE REQUESTED TO APPROVE A SERIES OF LEASE-PURCHASE ARRANGEMENTS BY THE BOARD OF EDUCATION**

Procedure

The hypothetical procedure would be as follows:

1. The School Board identifies needed school facilities.
2. The voters are asked to provide the funds required to lease-purchase these facilities.

3. Upon voter approval, the bids from potential lessors are solicited, and acceptable bids are selected and implemented.

4. Revenue from the voter approved funds are used to lease the facilities and finally purchase them at the end of an appropriate period of time.

Legal Opinion

Missouri Attorney General, Norman H. Anderson, gave an opinion (No. 359) when asked the following question by Mr. Daniel H. Anderson, Prosecuting Attorney of Montgomery County:

> "May a county or any other political subdivision of the State of Missouri validly enter into a lease-type agreement, whereby a piece of personal property is acquired with yearly lease payments being made by the political subdivision of the State over a period of one year or more, with the understanding that, at the termination of the lease, the political subdivision is to receive the property for a nominal consideration, or, where the political subdivision is to receive the property without any additional compensation having been paid to the lessor? This question assumes that there are not adequate obligated funds in the treasury to pay the purchase price of the piece of equipment, and that the voters of the political subdivision have not voted to incur an indebtedness in excess of the unobligated surplus in the treasury."

The Attorney General's opinion is as follows:

> Article VI, Section 26(a), Constitution of Missouri, provides:
>
> "No county, city, incorporated town or village, school district or other political corporation or subdivision of the state shall become indebted in an amount exceeding in any year the income and revenue provided for such year plus any unencumbered balances from previous years except as otherwise provided in this Construction."
>
> The question of making a long term lease, with option to purchase, was considered by the Supreme Court in the case of Sager vs. City of Stanberry, 336 Mo. 213, 78 S.W. 2d 431, in the light of the above constitutional provision, which prohibits any municipal corporation from incurring an indebtedness in excess of the anticipated revenue for 1 year. In the course of its opinion, the court stated 78 S.W. 2d 431, 437:
>
> "The evidence clearly shows that the city asked for and received bids for the purchase of the machinery included in

the Fulton Company contract; that the city proposed to buy this machinery on the installment plan; that the Fulton Company's bid was accepted, and it was agreed, and so understood by the city officials and the representatives of that company that the purchase price of the machinery, with interest be paid in monthly installments over a period of 52 months with title reserved in the vendor until the machinery was paid for. The so-called lease designating the monthly installments as rentals is a patent attempt to disguise the true character of the transaction. The facts and events which we have heretofore stated suffice to demonstrate that it was not a bona fide lease, but in legal effect, a purchase and sale of the machinery on the installment plan creating a present indebtedness for the full amount payable in deferred monthly installments. It is said in 19 R.C.L. at page 984: The purchase of a single public improvement by installments, which in the aggregate exceed the debt limit cannot be accomplished by calling the installments rent, if there is a binding obligation to pay them for a definite period and upon the payment of the last installment title to the property passed to the municipality, or by pledging the municipality's good faith for the payment of the installments when it is recognized that there can be no legal liability, if it is provided that if any installment is unpaid, title to the entire property shall revert to the contracting party. This device of clothing a sale and purchase, whereby the purchase price is to be paid in installments, in the guise of a lease and denominating the installments as rentals, with a view to thereby circumventing constitutional and statutory debt limitations, has been frequently attempted. *** "

In view of the holding of the Supreme Court in this case, it is the opinion of this office that a county cannot validly enter into any lease-type agreement for the purchase of property with the understanding that, at the termination of the lease, the political subdivision is to receive the property when there is not sufficient unobligated funds in the treasury to pay the purchase price at the time the agreement is made.

Conclusion:

It is the opinion of this department that a county cannot legally enter into a lease-type agreement for the purchase of personal property on a payment plan extending over a period of 1 year or more with the understanding that, at the termination of the lease, the county is to receive title to the

property when there is not sufficient unobligated funds in the county treasury to pay the purchase price at the time the lease is entered into, unless the county has, by a vote of the people, voted to become indebted for the amount of the purchase."

Yours very truly,
(signed) Norman H. Anderson
Attorney General

Author's Comments:

Hypothetical Plan F. was not among those reviewed by the law firm of Bryan, Cave, McPheeters and McRoberts. Many questions remain to be answered; among them are the following:

Missorui Statute 164.141 states the purposes for which bonds can be used. These do not include the leasing or lease-purchasing of facilities. By the interpretation commonly given the statutes bonds cannot be used to finance a lease-purchase agreement.

The account from which the fund would be provided is not discussed in the above opinion. The two major contenders are the operating fund and the capital fund. The operating fund would require 50% majority voter approval of, for instance, a tax levy to construct the schools. To use the capital fund, it might be possible to use the building tax levy. In the past this tax has accrued over three to four years and then the facilities have been built. To use it for the lease-purchase arrangement, the funds would not accrue but would be used to pay the yearly lease costs. The advantage in this latter arrangement over the accrual concept is the continual inflation of building costs and immediate needs for school space. In other words, the Board of Education could receive more facility for their dollar and obtain it when it is needed rather than in the future.

This Plan shows promise and warrants further study as a means of financing urban education facilities in St. Louis.

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# Summary

It has been clear at all stages of this study that the prospects for financing urban school construction in the City of St. Louis are poor and, indeed, discouraging.

The basic alternatives seem very few:

1. A continuing effort to obtain voter approval for general obligation bond issuance for school construction funds.
2. More extensive use of leasing programs.
3. Hope for, and reliance on, Federal school construction financing aid in future.
4. The employment of some form of alternative school financing, which must first be approved by legislation action effecting changes in the State statutes controlling school building funds usage.

Alternative No. 1 must take into consideration the sorry history of General Obligation Bond funding in St. Louis. The declining city population, difficulties stemming from the property tax financing base, and the resistance to tax increases by elderly voters, and the religious and racially tinged voter divisions in the city; all of these factors tend to undercut hopes for passing any general obligation bond request during the next several years.

On the other hand, it is true that these bond elections are supported by "yes" votes from well over 50 per cent of the voters. This suggest that it may be possible, with skillful political management, better support from the ward political leaders, and some aid from the new 18-20 year old voters, to gain the additional votes for passage under the 2/3rds majority requirement.

This, of course, still leaves open the question - whether in a static or declining population it is good financial judgement to rely on long-term capital debt expansion - specifically, the sale of general obligation bonds.

Alternative 2 which would be an increased use of leasing and lease-based methods of school financing must consider that leasing costs are higher than those incurred under general obligation bond financing. Leasing is usually a slightly more expensive way of deferring payment until tomorrow for what we use today. Leasing does offer certain opportunities to obtain building space from operating budget monies rather than from capital expenditure budgets. School Boards in Missouri can lease buildings, components and equipment on one-year lease arrangements, and can also arrange under those one year, re-

newable leases to obtain incremental ownership of the building or facility culminating in 100% ownership.

It seems reasonable, in a city where the population is declining and where ill-defined horizontal population shifts are occurring. that during those years of change and adjustment, long-range, large-scale school construction planning is not possible, and instead, a kind of "piece-meal" planning procedure is called for. This kind of planning would indicate that planning and building decision would be made to accommodate those population changes and shifts as they occur and that the school buildings required during those times could well be obtained by leasing existing buildings, leasing equipment installations intended to modernize existing buildings or by leasing portable or new facilities.

The one-year restriction on leasing by school boards tends to put a heavy burden on the lease transaction but recent events show that large public-spirited corporations are finding ways to arrange for lease credit that will allow them to take on leasing contracts with school boards.

The problem of arranging credit guarantees for lease contracts has led to efforts to have a lease-purchase arrangement declared legal within the limitations of the Missouri statutes. The Attorney General has recently held that long-term lease contracts can be devised but they must have voter approval. An open question remains here whether a majority or a 2/3rds vote is required for such leasing permission, and answer depends on whether the budget allocation made for the agreement is placed under capital expenditures or under operational expenditures.

Alternative 3 relies on an expectation of Federal Government funding allocated for school construction needs. The Tobin study[1] contains an expression of this viewpoint:

That study concluded that there is:

> ". . . .only one solution. A large increase in either State or Federal aid is essential if the St. Louis school system is to be salvaged. The Federal Government must allocate Title One funds to St. Louis that realistically deal with the large number of poverty children attending the public schools."

1 Tobin, Gary A.

However, if any federal aid is forthcoming, most signs indicate that it will be many years before such funds will be appropriated to the nation's cities.

In historical perspective, the United States does not think well of its cities. Indeed, the Jeffersonian believe that cities must always be kept subservient and impotent to preserve democratic America, is still the prevalent one in Congress and in many state legislatures.

Additionally, if and when federal funds do become available for urban rescue, the schools will have to share those monies with all the other financially-crippled city facilities: housing, transportation, health, law enforcement, sanitation and others. The School Boards' share may well be less than is necessary.

Alternative 4 contemplates a concerted effort to obtain changes in the Missouri statutes controlling and defining school building funding and expenditures, and/or the creation of legislatively established public bodies or corporations similar to the New York City Educational Construction Fund or the Illinois School Building Commission.

The presumptions here are that the other alternatives are diminishing in effectiveness, too expensive and too limited in scope, or too uncertain and too far in the future to be depended upon, and that while legislative changes are slow and very difficult to obtain, they may well be the prudent objectives in the long view. There are very few bills introduced in the recent Missouri legislative session (1971) relating to school finance and only mild support was forthcoming for these small efforts.

Upon examination of the comparative legal and operating powers enjoyed by school boards, it is evident that those in Missouri are markedly constrained in comparison with many other states - Iowa and Indiana, for instance, are states whose legal structure is somewhat similar to Missouri's. Both of these states have been successful in bringing school finance laws to a degree of development under which their school boards have a wider range of options with which to work than do those in Missouri.

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# Appendices

# Appendix A

On the matter of financing school construction by bonds, many factors must be taken into account: population, total assessed value of property, trends in housing and industrial/commercial development, and the bonding capacity of the Board of Education.

Projecting population for a period of a decade proves a formidable task in itself, and becomes increasingly difficult when the length of time to be considered is extended to twenty years. Along with using past trends as an indication of the future growth or decline in population, birth and death rates provide perhaps a more firm basis for such estimates. The birth rate for 1960 was 25.8/1,000, and the death rate, 13.9/1,000 while the 1970 birth rate was 18.95/1,000, and death rate, 15.07/1,000. These figures hold many important important implications for the future of St. Louis. It can be seen that the B/D ratio dropped from approximately 2:1 to 4:3. With a natural rate of increase of only 4/1,000, depending on the effects of out-migration, St. Louis may well attain a zero population growth by 1990, if not sooner. The birth rate has shown a significant drop even though the children of the "baby boom" period have reached childbearing age. Another factor influencing the birth rate in St. Louis has been that the majority of out-migrants have been young families who take with them the City's potential for population growth. As black families move up economically and socially, their birth rate may be expected to decline. In view of such a combination of factors, not only does it appear inevitable that the total population of St. Louis will continue to decrease, but also the relative proportion of school age young persons in the City may also decline. Unless measures are taken to improve the City's stock of housing, there appears to be little hope of attracting *families* into the City.

Table 1

| | *Housing Units* | *Population* | *Per Unit Occupancy* |
|---|---|---|---|
| 1960 | 262,984 | 750,026 | 2.85 |
| 1970 | 238,441 | 622,236 | 2.85 |
| 1980 | 214,597 | 553,300 (range 526-582,000) | 2.6 |
| 1990 | 202,675 | 515,000 (range 490-540,000) | 2.5 |

Such a pessimistic view of the housing situation reflects present conditions. At this time there is a tremendous backlog of vacant housing awaiting demolition; many of the units currently occupied are sub-standard and will be vacated by 1990. Even the newest significant body of housing in the City will be approaching 50 years old

unless unit replacement increases sharply. In considering replacement, the assumption is made that there will be an estimated 5-year time lag between the time a unit is vacated and demolished and its replacement; the further assumption is made that only 25% of these housing units will be replaced by other housing units although there may be an additional amount of construction for industrial and commercial uses which may not be so carefully predicted.

There are two factors which may alter this housing projection for the better. The effects of building techniques on the speed and cost of unit replacement cannot be disputed. Operation Breakthrough could possibly have a significant impact on housing construction in St. Louis, but, as yet, this cannot be foreseen. Another factor of great import is the creation of a land trust. The land trust would allow the local government to appropriate land on which unpaid back taxes have accumulated. Such a process could be completed in a span much shorter than the length of time it currently takes for the City to obtain title to such land. The property obtained in this manner could then be sold to private developes for either residential, industrial or commercial purposes. Passage of the bill authorizing a land trust appears highly likely at this time.

According to Section 164.161 of the Missouri Statutes, the school district is limited in its indebtedness to ten per cent of the value of taxable tangible property as determined in the most recent assessment. In view of the dependence of bonding ability on this total assessed value, an examination of recent trends in assessed value could provide an insight into the future limit of bonding and the district's ability to repay. Following the analysis of trends in total assessed value, we will seek to determine the ability of the school district to assume the financial responsibility of bonding.

Table 2

| Year | Total Assessed Value | Assessed Value of Real Property |
|---|---|---|
| 1960 | 1,677,045,867 | |
| 1961 | 1,682,065,386 | |
| 1962 | 1,663,308,645 | |
| 1963 | 1,649,712,594 | |
| 1964 | 1,672,709,616 | |
| 1965 | 1,652,059,764 | |
| 1966 | 1,656,902,506 | 1,254,474,850 |
| 1967 | 1,745,163,440 | 1,240,508,200 |
| 1968 | 1,741,602,820 | 1,232,758,220 |
| 1969 | 1,744,987,165 | 1,219,986,110 |
| 1970 | 1,717,322,200 | 1,217,145,640 |

# Appendix A

The Table above presents the total assessed value[1] of taxable tangible property in the City of St. Louis from 1960-1970. Although there has been much fluctuation during this period, it has never dropped below the 1963 level. Since the assessed value of real property comprises the major portion of the total (currently 71%) this will be our primary concern. Even in years in which the value of real property has been declining, the total has held its own.

In 1969, assessed value of real property exempt from taxation under the Missouri Urban Redevelopment Corporation Law was $55,337,060. Although the exact figure for 1970 has not been determined, it has, no doubt, increased. According to this law, the assessed value of the land exclusive of improvements for the year prior to urban redevelopment corporation ownership is subject to taxation for 10 years from the time it was required by the urban redevelopment corporation. For the following 15 years, 50% of the current value of improvements, plus land, is subject to taxation. At the end of this 25-year period, the property becomes subject to full assessment. Much of this $55,337,060+ will be added to the tax rolls by 1980 and 1990. This leads us to conclude that the total assessed value will not drop below $1.7 billion despite a population decline. Based on 1968-69 information, it was estimated that 32.5% of the assessed value of real property was industrial, judging from growth of service employment in the City, we can assume that at least 50% of assessed value of property is industrial and commercial. If the expansion of employment in the service sector continues (1966-67 change - +5.9%; 1967-68 change - +4.6%; and 1968-69 change - +3.6%, the City may be able to maintain a strong industrial/commercial position despite a small decrease in the share attributed to manufacturing (1966-67 change - +0.2%; 1967-68 change - +0.8%; and 1968-69 change - −0.9%).[2]

From the Annual Report of the Office of Business Services of the Board of Education of the City of St. Louis (1969-70), the legal debt limit that was unused as of June 30, 1970, was reported as $141,553,390. Based on present bonds and interest payable currently, it appears that the total due in each year hovers near $2.87 million. From this information, it appears that the school district will encounter no problemas to its debt limit; the more pressing problem as would be that of repaying bonds with interest if the entire $142 million were issued at once. However, this appears to be highly unlikely in light of the present level of bonding. If total assessed value does not sharply decline, an increase in the tax rate on tangible property

1 Included real property, personal property, Merchants and Manufacturers ad valorem, State assessed amount of railroads and public utilities.

2 Figures from County Business Patterns.

which is directed to the school district would yield the necessary additional funds if a slight increase in bonding was necessary. Another factor which may prove most valuable in the future is the prospect of state-local revenue sharing or the assumption of a larger portion of the cost of education by the State.

Therefore, we conclude:

1. The decrease in population that may occur (that is, 100,000 persons) will not significantly alter the property tax base. At most, it appears that it will reduce the base by only 1.2%.

2. The current property tax revenues for school purposes yield $44 million from the real and personal property tax, at a rate of $2.86/$100 assessed valuation, and $4.74 million from the Merchants and Manufacturers ad valorem tax at the rate currently in effect.

   Of these yields, approximately 17 cents, producing an annual total of $2.9 million, is designated specifically for the Interest and Sinking Fund of the school system. Additional funds are added to this fund from delinquent tax collections and public utilities tax. The current amount of outstanding bonds payable during the period 1971 to 1984 is $39,648,079.

   If the assessed value declines to the expected level, the total debt limit would decrease proportionately. With the 1.2% possible decline in assessed valuation, and assuming total bonds outstanding remain somewhat stable in the future, the unused debt limit may be lowered to $137 million.

4. One caveat: the above calculations assume that the commercial and industrial tax base will not decline. This possibility has not been investigated. On the one hand, a decline in population could bring a decline in retail property, but it could also allow a shift in land use to industrial and commercial.

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Statutes Relating a Specific Power to a School Board or School Construction Agency

# Appendix B

| Item | | Illinois (Public Building Commission) | Iowa (Local School Boards) | New York City (Educational Const. Fund) |
|---|---|---|---|---|
| 1. | To raise money by taxation | 85-1045 | 296.6 | 416 |
| 2. | To borrow money | 85-1044 Subsec. M & 1044.1 | 298. Subsec. 21 | 454 |
| 3. | To issue General Obligation Bonds | | | |
| 4. | To issue Revenue Bonds | | 296.6 | |
| 5. | To receive Money | 85-1043 Subsec. L & 1044 | 297.21 | 454 |
| 6. | To spend Funds | 85-1044 Subsec. C,H L, U, K | 278.1 | 454 |
| 7. | To allocate Funds | | 278.1 | |
| 8. | 85-1044 | 297.6 Subsec. B & L | 454 | |
| 9. | To contract beyond Term of Office | 85-1034 | 277.33 | 454 |
| 10. | To establish Commissions or Parallel Corporations to enter into Agreements beyond Term of Office | 85-1034 | | 453 |
| 11. | Do all Contracts have to be on Competitive Bid Basis | 85-1050 | 297.7 | 416, 453 & 458 |
| 12. | To enter into Intergovernmental Agreements | 85-1044 Subsec. B | 278.1 | 458 |
| 13. | To engage in Land Banking by purchasing property beyond present needs | | | |
| 14. | Can School District act as Prime Lessor | | 278 | |
| 15. | Lottery used for Revenue | | | |
| 16. | Create Subdistrict Assessment areas | | | |
| 17. | To establish Sinking Funds | 85-1045 | | 454 |
| 18. | To establish own Direct Powers | 85-1044 | 278.1 | 454 |

This Chart was prepared by Morris Simon,
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| | |
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| William E. Kottmeyer | Former Superintendent<br>St. Louis School System<br>St. Louis, Missouri |
| Charles W. Kunderer | Assistant City Counselor,<br>St. Louis, Missouri |
| Charles Lanza | Real Estate Department, Bureau of R & P<br>New York City, New York |
| Charles Leven | Director, Institute of Urban & Regional Studies<br>Washington University<br>St. Louis, Missouri |
| James E. McClelland | Director of Maintainance & Construction<br>Board of Education<br>St. Louis, Missouri |
| Edouard J. Mutrux | Director of Engineering<br>Board of Education<br>St. Louis, Missouri |
| William O'Brock | Architect, Parkway Unified School District<br>Chesterfield, Missouri |
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| Elmer Pound | Member, Board of Education<br>St. Louis, Missouri |
| Jerome Pratter | Attorney, Team 4<br>Clayton, Missouri |

People with whom the Issues in this Report were discussed

# Appendix C

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| | |
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| Barry Anderson | Assistant Professor<br>Graduate Institute of Education<br>Washington University<br>St. Louis, Missouri |
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| Daniel Blackstock | County Council, Butte County<br>Oroville, California |
| Jack Bronson | Public Building Commission<br>Chicago, Illinois |
| David Colton | Director, Graduate Institute of Education<br>Washington University<br>St. Louis, Missouri |
| Rev. James T. Curtin | Superintendent of Schools<br>Archdiocese of St. Louis<br>St. Louis, Missouri |
| Richard M. Garter | Head Master, Trinity School<br>New York City, New York |
| Edward Greenberg | Chairman, Economics Department<br>Washington University<br>St. Louis, Missouri |
| Lee W. Hansen | Department of Economics<br>University of Wisconsin<br>Madison, Wisconsin |

**List of Attendees**
**EFL Conference on**
**School Financing**
**New York and Washington D.C.**

| | |
|---|---|
| W. Montford Barr | Professor of Education<br>Indiana University<br>Bloomington, Indiana |
| George J. Collins | (formerly Assistant Commissioner of Education,<br>Commonwealth of Massachusetts)<br>Boston, Massachusetts |
| Bruce Dunsmore, AIA | Projects Director<br>Daniel Mann Johnson & Mendenhall<br>Washington, D.C. |
| Alan C. Green | Secretary, Educational Facilities<br>Laboratories, Inc.<br>New York, New York |
| James W. Fitzgibbon | Washington University<br>St. Louis, Missouri |
| Samuel Kaplan | Director,<br>New York City Educational Construction Fund<br>New York City, New York |
| James Piasano | Educational Planner<br>Educational Consultants, Inc.<br>Chicago, Illinois |
| Robert Reynolds | Architect<br>Daniel Mann Johnson & Mendenhall<br>Washington, D.C. |
| Cyril G. Sargent | Professor of Education<br>City College of New York<br>New York, New York |
| Alvin G. Skelly | Executive Vice President<br>Research Council of the Great Cities Schools<br>Washington, D.C. |
| Gary K. Stonebreaker | President<br>The Advanced Planning Research Group, Inc.<br>Kensington, Maryland |
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# Appendix C

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|---|---|
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| Lewis Sauer | Architect<br>Philadelphia, Pennsylvania |
| Jay Small | Acting Chief, Acquisitions Branch<br>Space Management Division<br>Public Building Service<br>General Services Administration<br>Kansas City, Missouri |
| Lawrence G. Thomson | Architect<br>Chico, California |
| George Wendel | Director, Center for Urban Programs<br>St. Louis University<br>St. Louis, Missouri |

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